AR82

ANNUAL REPORT 2006

People and Innovation

. . . powering Saskatchewan to a bright future

In life, unlimited opportunity can often present itself as an immense obstacle. At SaskPower, we choose to see our mandate to generate and deliver electricity in a massive 650,000 square kilometre service area as a unique chance to serve. It requires extraordinary ingenuity, expertise and discipline.

In order to guide us as we prepare to take advantage of our present and future business climate, a new strategic direction is providing a rallying point for all SaskPower employees. At its core is a vision statement that emphasizes two keys to helping our company maintain its role in supporting future growth and prosperity for our province — people and innovation.

It seems fitting that the two very things that built Saskatchewan should help secure its future.

On the cover:
Malcolm Gosselin, *Transmission and Distribution*

FINANCIAL AND OPERATING HIGHLIGHTS

Financial indicators

(in millions)	2006	2005	Change
Revenue	**$ 1,456**	$ 1,326	$ 130
Net income	**93**	131	(38)
Dividends	**61**	85	(24)
Capital expenditures	**285**	473	(188)
Long-term debt, net of sinking funds	**2,314**	2,297	17
Return on equity[1]	**6.4%**	9.2%	(2.8)%
Per cent debt ratio[2]	**61.0%**	60.9%	0.1%

1. Return on equity = (net income)/(average equity), where average equity = [(total equity at year-end + total equity at previous year-end)/2].
2. Per cent debt ratio = (debt)/(debt + equity), where debt = (long-term debt + current portion of long-term debt - cash and cash equivalents).

SaskPower subsidiaries' net income

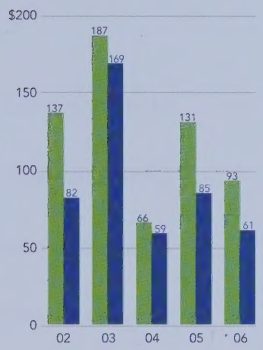
(in millions)	2006	2005	Change
SaskPower International	**$ 16**	$ 4	$ 12
NorthPoint Energy Solutions	**18**	12	6

Operating statistics

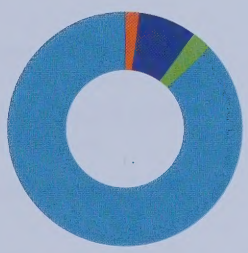
(GWh)	2006	2005	Change
Saskatchewan electric sales	**17,400**	17,133	267
Exports	**480**	1,048	(568)
Total electric sales	**17,880**	18,181	(301)
Gross electrical energy supplied	**19,823**	19,950	(127)
Losses and internal use	**(1,943)**	(1,769)	(174)
Net electrical energy supplied	**17,880**	18,181	(301)
Electricity trading purchases	**1,672**	645	1,027
Losses	**(23)**	(23)	–
Electricity trading sales	**1,649**	622	1,027

One GWh is equivalent to the energy consumed by 125 typical houses in one year.

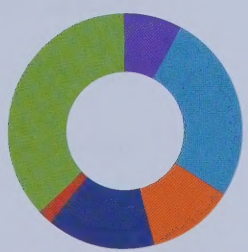
Net income and dividends
(in millions)



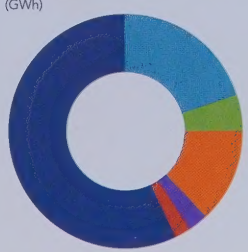
2006 revenue



2006 expense



2006 gross electrical energy supplied
(GWh)



OUR YEAR AT A GLANCE

- Release of new strategic direction, including company vision, mission, values and strategic priorities.
- Feasibility study continues on what would be the world's first utility scale near-zero emissions pulverized coal plant.
- Emissions Control Research Facility (ECRF) at the Poplar River Power Station develops and tests mercury and particulate reduction technologies.
- SaskPower International's Centennial Wind Power Facility is commissioned, giving Saskatchewan one of the highest percentages of wind generation capacity by control area in Canada.
- $130-million Poplar River Power Station Unit #2 rebuild complete, with expected payback in five years.
- Record $82 million spent on new customer connects.
- Three Environmentally Preferred Power contracts signed with NRGreen Power Limited Partnership for 15.3 megawatts generated from heat recovery projects.
- Construction of a 76-kilometre transmission line between Island Falls and Pelican Narrows strengthens northern service.
- NorthPoint Energy Solutions incorporates new larger cavern storage space to help stabilize SaskPower's natural gas fuel costs.
- Development of a new mobile communications dispatch radio system continues.
- Service Delivery Renewal Program launched to examine and strengthen key processes used to meet customer needs.
- Power Savings campaign provides customers with tips on how to reduce electricity use.
- Shand Greenhouse nears five million seedlings distributed to community and non-profit groups since opening.

Marc Hankewich, *Transmission and Distribution*

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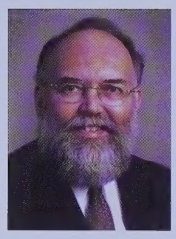
Profile

As the principal supplier of electricity in Saskatchewan, SaskPower serves more than 445,000 customers and manages $4.2 billion in assets. We have over 2,400 permanent full-time employees located in 71 communities.

Our company operates three coal-fired power stations, seven hydroelectric stations, four natural gas stations and two wind facilities with an aggregate generating capacity of 3,214 megawatts (MW). SaskPower also has purchase agreements with the Meridian Cogeneration Station, Cory Cogeneration Station, SunBridge Wind Power Project and NRGreen Kerrobert Heat Recovery Project. Total available capacity is 3,668 MW.

SaskPower maintains more than 155,000 kilometres of power lines, 52 high voltage switching stations and 174 distribution substations. We also operate three wholly-owned subsidiaries — SaskPower International, NorthPoint Energy Solutions and SaskPower Shand Greenhouse.

Minister's letter



Regina
March 2007

To His Honour
The Honourable Dr. Gordon L. Barnhart, S.O.M., PhD
Lieutenant-Governor of Saskatchewan
Province of Saskatchewan

Sir:

I have the honour to submit herewith the Annual Report of the Saskatchewan Power Corporation for the year ended December 31, 2006. The report includes the financial statements for the year in the form approved by the Treasury Board, duly certified by the auditors of Saskatchewan Power Corporation, all in accordance with *The Power Corporation Act*.

I have the honour to be, Sir, your obedient servant,

John T. Nilson, Q.C.
Minister Responsible
SaskPower

OUR SHARED EXPERIENCE

CHAIR'S MESSAGE

The notion of consistently building shareholder value is often associated exclusively with publicly-traded companies. But when it comes to SaskPower — a Crown-owned utility — we believe the concept is equally applicable. In fact, it may be even more important because our ultimate shareholders — the people of Saskatchewan — are also our customers.

As a result, our definition of performance not only includes meeting financial targets, but also consistently high standards of service. Effectively filling this unique and complex role makes it all the more important and challenging to clearly articulate where we are taking our company.

During 2006, the Board of Directors joined the Executive and employee groups in completing a review and revision of SaskPower's strategic direction. At its core is a new vision that serves to remind us of the ideals we are pursuing and what we want to achieve in the years to come: "People and innovation . . . powering Saskatchewan to a bright future."

This statement of purpose provides a necessary and constant reminder that the formula for our success begins and ends with people. Our employees and partners will lead the way through the unique expertise and determination they bring to SaskPower. Their resulting efforts will be critical as we navigate upward pressures on costs associated with an extensive reinvestment in our electrical system, evolving environmental regulations and an extremely competitive marketplace for recruiting and retaining skilled professionals.

We are continuing to work hard as a utility to manage resources prudently and employ effective risk management. However, the reality remains that rates must reflect the costs associated with an extensive and necessary program of system infrastructure renewal. A strong financial performance is essential to sustaining our company. In particular, we continually strive to balance a range of financial expectations, including return on equity, debt ratio and shareholder dividend ratio targets.

In the face of these challenges, we recognize our company remains central to supporting economic development and growth. We are also aware of the continuing need to provide a foundation for our basic quality of life in Saskatchewan. Therefore, we will endeavour to introduce rate increases in a predictable and moderate way. We will ensure that all customers — residential, business, agricultural and industrial — share in a fair rate structure that supports the maintenance of one of the strongest balance sheets of any government-run utility in the country.

I am pleased to note that our continuous progress is aided by a strong alignment between the Board of Directors and management of SaskPower. This exists in no small part due to the extensive work done by colleagues at the Board committee level throughout the year. Of course, I would also like to extend my special thanks to employees for their invaluable contributions and faith as we travel along our common strategic course.

Patricia A. G. Quaroni, LLB
Chair, Board of Directors

PRESIDENT'S MESSAGE

At SaskPower, everything we do begins and ends with the needs of our customers. Today, we are more focused than ever on shaping a progressive strategy that will help us maintain an exceptional level of service that is reliable, affordable, safe, secure and sustainable. At the heart of our planning lies an exciting path of renewal.

One of the most visible opportunities for our company is arising out of our need to assess and determine options for future supply. Over the next 20 years, an amount equal to two-thirds of our installed generation fleet will have to be refurbished or replaced — approximately 2,000 megawatts. As a result, we are taking a number of steps to maximize the advantages associated with a comprehensive revitalization of our system.

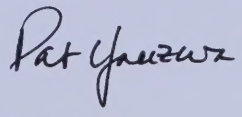
New sources of supply must meet stringent environmental requirements, remain cost-effective and measure up to operational demands. The recently commissioned Centennial Wind Power Facility embodies the type of solutions we will seek to produce. As we chart potential courses of action, we will continue to study innovative ways of integrating green and economically viable sources of electricity into our balanced generation portfolio.

Our Clean Coal Project is helping us determine if we can use Saskatchewan's abundant lignite coal reserves to generate electricity with near-zero emissions — a possible world-first. If proven feasible, we can join with our partners in sharing the technology with others around the globe. Simultaneously, we are investigating polygeneration as a major supply source.

In addition to major capital investments in existing infrastructure, SaskPower's path of renewal also extends to our people. A large number of retirements will see a transformation of the workforce that requires comprehensive succession planning and programming. This extensive turnover in personnel will see our company address cultural, employee engagement and diversity challenges. Safety will also remain paramount as we support the belief that all accidents are preventable.

SaskPower's relationship with customers is also being addressed. A new Service Delivery Renewal Program is examining our service model and how we need to interact with customers in the future. We are also determining the technology and systems that will best assist us in meeting customer expectations. The objective of this multi-year program is to develop more efficient and cost-effective processes that benefit both our customers and SaskPower.

As we move forward and build upon the trust our customers place with us, the opportunities for positive change are readily apparent. In the coming years, they will continue to make SaskPower one of the most exciting companies in Saskatchewan. I would like to thank my fellow employees and our Board of Directors for helping make this such a rewarding place to work.



Pat Youzwa
President and Chief Executive Officer

Individual loyalty.
Collective energy.

At SaskPower, our people drive innovation. The resulting operational efficiency and excellence is what ensures the delivery on our mission of providing safe, reliable and sustainable power to our customers.

It is the values of respect, integrity and openness in all that we do that carries on a nearly 80-year tradition of unparalleled performance.

And it is the strategic priorities of diverse, engaged employees; innovative improvements in the electricity value chain; and productive relationships that will allow us to aggressively seize opportunities that will secure a bright future for all.

THE POWER TO CHOOSE

With the requirement for two-thirds of SaskPower's generation fleet to undergo refurbishment or replacement in the next two decades, our company is entering a time of exceptional transformation. As we consider the many questions around the future supply of electricity, we are moving forward with an intense customer focus. We are also carrying the knowledge that the service we provide is essential to the quality of life for Saskatchewan people everywhere.

As a result — above all else — our responsibility in maintaining long-term security, reliability and availability spearheads all of our planning. However, balancing the need for affordability and concerns about changes in our natural environment are also predominant issues.

TACKLING A GLOBAL CHALLENGE

A decision on our next major supply source will be required in 2007. In order to ensure a new facility is operational by 2012, extensive research and analysis is being completed on a variety of future supply options: coal, polygeneration, demand side management, cogeneration, purchased power, imports, nuclear, hydro, wind and other renewables. Whatever the option, we will endeavour to have a thorough understanding of the environmental impact of any supply decision we may make.

Historically, SaskPower has relied on coal to supply the majority of our electricity because it is a low cost, secure and abundant long-term fuel source. Worldwide, it's estimated that by 2020, 40% of the globe's electricity will come from coal.

In the past few decades, significant gains have been made in controlling harmful emissions, including particulate matter, sulphur dioxide (SO_2), nitrogen oxides (NO_X) and mercury. However, carbon dioxide (CO_2) — thought to be the primary contributor to climate change — remains one of the most significant challenges for electrical utilities around the world.

Tara Pells, *Power Production* ▸

SaskPower

CAPTURING A CLEANER FUTURE

SaskPower's Clean Coal Project is examining the feasibility of the world's first near-zero emissions pulverized coal plant. This $1.5-billion, 300-megawatt (MW) facility will capture approximately 8,000 tonnes of CO_2 a day for sale and use in enhanced oil recovery operations in southeast Saskatchewan. The CO_2 could also be sequestered in deep saline aquifers. An expansion of the Shand Power Station near Estevan has been identified as the potential site for a new unit.

In addition to maintaining long-term relationships with the Petroleum Technology Research Centre at Regina's Research Park and the International Test Centre for Carbon Dioxide Capture at the University of Regina, we have developed a number of key partnerships to advance the Clean Coal Project. SaskPower, Babcock & Wilcox Canada (B&W) and Air Liquide Canada are jointly developing the core CO_2 separation technology process. We also have a boiler design supply partnership agreement with B&W, a project engineering agreement with Neill and Gunter, as well as a turbine generator set agreement with Marubeni Canada Limited and Hitachi Limited. Should the resulting clean coal technology prove feasible, SaskPower and its project partners will look to capitalize on opportunities to take this groundbreaking expertise beyond our borders.

SaskPower's Emissions Control Research Facility (ECRF) at the Poplar River Power Station is not only supporting the Clean Coal Project feasibility study, but also the future enhancement of our existing facilities. It is expanding the potential of our company's emissions control techniques so that future reduction requirements can not only be met, but exceeded.

With SaskPower required to reduce mercury emissions by 40% from current levels by 2010, the ECRF is presently focusing on mercury capture. The process involves injecting powdered activated carbon into a fabric filter to remove the mercury in flue gas. The research is also evaluating ways of reducing particulate levels so that downstream control equipment can successfully capture CO_2.

DOING THINGS DIFFERENTLY

While we continue to establish medium- and long-term system requirements, SaskPower is engaged in the continuing development of our Green Power Portfolio (GPP). This strategy is ensuring that all of Saskatchewan's new electricity needs until 2010 are met from environmentally friendly sources.

Commissioned in 2006, the 150-MW Centennial Wind Power Facility is a centerpiece of this program. Developed, owned and operated by our subsidiary, SaskPower International, the addition of this renewable energy source means that wind now accounts for 4% of Saskatchewan's capacity.

The Environmentally Preferred Power (EPP) Program is also helping the Corporation meet short-term requirements as part of the GPP. Independent power producers (IPP) are developing small-scale environmentally friendly sources of generation for integration into our grid. During the year, three new power purchase agreements were signed with NRGreen Power Limited Partnership. Approximately 15.3 MW will be provided from heat-recovery projects to be built at Alliance Pipeline Limited compressor stations located near Alameda, Estlin and Loreburn. The EPP Program will ultimately result in 45 MW of environmentally responsible power being added to SaskPower's generation mix.

Meanwhile, we are also emphasizing the role of energy conservation in the GPP. The result of an alliance between SaskPower and Honeywell, the Energy Performance Contracting (EPC) service continues to assist large-scale and institutional customers in saving electricity and will expand in the future. In addition, our Power Savings advertising campaign encourages residential and small business customers to think about the way they use power. The campaign provides information on proper appliance use and energy efficient lighting — all with the goal to help customers save electricity, reduce power bills and minimize their impact on the environment.

◀ Barb Beltramini, *Planning, Environment and Regulatory Affairs*

ENGINEERING SOLUTIONS

While new supply is a significant area of focus, we are also continuing our intensive program of renewing the province's electrical system. In the last five years, the Corporation has spent well in excess of $1.6 billion.

In 2006, a $130-million upgrade to Poplar River Power Station Unit #2 was completed. This major rebuild and refurbishment project was one of the most ambitious in our company's history. It will provide payback within five years while improving reliability and availability, increasing efficiency and capacity, and reducing particulate emissions. We also advanced preparations on a $140-million upgrade of Unit #1, scheduled for completion in 2008.

In northern Saskatchewan, a new 76-kilometre line between Island Falls and Pelican Narrows is complete. It is alleviating problems such as voltage fluctuations, outages and incidents of low voltage previously experienced by the communities of Deschambault Lake, Jan Lake and Pelican Narrows.

Throughout the entire province, our annual Wood Pole Replacement Program also continued. Using test data, over $9 million was spent to replace deteriorated structures. For SaskPower, a regular program is more cost effective and resource efficient than complete line builds. This strategy results in increased safety and system security, improved import/export capabilities and decreased power quality issues.

SaskPower is also completing transmission infrastructure and generating facility upgrades to meet the North American Electric Reliability Council's (NERC) standards for performance, control and protection systems. Demonstrating compliance is essential to maintain the ability to transfer electricity to and from the United States, Manitoba and Alberta. To-date, NERC has issued 110 standards.

AN EFFICIENT RESPONSE

Operational excellence is key to SaskPower accomplishing its mission of sustainability. The Corporation's use of SAP software and business process improvements to optimize the use of power plant assets is attracting global attention. Benefits include increasing the amount of time our generating units are available to 84.6% and growing the number of planned work orders processed to 50,000 annually.

Meanwhile, our safety and environmental performance is monitored annually through demanding international criteria. SaskPower's Environmental Management System (EMS) is registered under the ISO 14001 standard and the Safety Management System (SMS) is registered under the OHSAS 18001 standard. During 2006, SaskPower's Environmental Policy was also updated.

In addition, a recent project evaluated the design of our company's internal controls over financial reporting. The next step will be to design a testing program that will assess and report on the effectiveness of these controls. Updates to the company Code of Conduct and Governance Manual were also completed this year, while new polices on Records and Information Management, Information Security, and Information Technology Management were introduced.

NorthPoint Energy Solutions — SaskPower's energy marketing subsidiary — is helping stabilize a portion of our company's fuel costs. It has incorporated new larger cavern space for use in optimizing natural gas management practices.

Nidal Dabghi, *Transmission and Distribution* ▸

GETTING TO THE SOURCE

At SaskPower, we pride ourselves on working closely with local businesses to maximize the benefits of our purchasing power. In 2006, the Corporation sourced over 84% of the goods and services it purchased from Saskatchewan vendors.

Our Quality Assurance and Supplier Development Department has three key functions: to ensure all goods and services meet corporate and industry quality standards; to ensure the Corporation maximizes Saskatchewan content in all purchases of goods and services; and to seek out new suppliers or sources for goods and services.

During the year, we continued to foster awareness about our Supplier Development Program by making presentations at different locations in the province. A SaskPower Aboriginal Procurement Strategy was also drafted. The strategy is designed to enhance opportunities for First Nations businesses through a relationship with SaskPower.

SAFETY IN NUMBERS

In 2006, we made significant progress in supporting our SMS by fully staffing SaskPower's Corporate Safety Group. In addition, more than 20 new safety-focused Codes of Practice were released by year-end. While much work around safety remains, our Lost Time Incident data is demonstrating that our strong focus is beginning to pay off.

SaskPower's mobile communications dispatch radio system is not only integral to providing service, but also ensuring the safety of employees, contractors and customers. As a result, our company is replacing existing radios with a new P25-compliant system. The P25 radio standard is quickly becoming the worldwide radio norm for public safety, security, public service and commercial applications. Work has begun on the second stage of implementation, with the new system constructed in partnership with the Royal Canadian Mounted Police.

Externally, we continue to educate the public about using and working around electricity. In particular, agribusinesses were the focus of SaskPower's newly-developed safety campaign — Farm Safety Facts and Fiction — highlighting specific safety activities. Farm safety remains a priority in Saskatchewan due to the number of incidents every year.

CONDITIONS OF SERVICE

When it comes to customer satisfaction, SaskPower is well-rated in some areas. However, there are many components of service that require ongoing and significant improvement. As a result, a new company-wide Service Delivery Renewal Program is examining and enhancing the key processes we use to meet the needs of our customers.

For example, the technologies supporting SaskPower's customer service information system — billing, telephone, meters and meter reading — are outdated and some equipment is no longer supportable. For a company that handles billing for more than 445,000 customers monthly and 750,000 telephone inquires annually, the efficiency and reliability of these systems is critical.

The Service Delivery Renewal Program will review how SaskPower interacts with customers, how customers wish to interact with our company, the services we provide and how they get delivered. The anticipated end result: the redesign of processes to become more effective and responsive while containing costs and improving customer satisfaction.

Internally, the Accountability in Pursuit of Excellence (APEX) program was completed in 2006. Designed to significantly improve information technology service in key areas identified through customer satisfaction surveys, it started with a reorganization that assigned clearer roles and responsibilities. The program also streamlined the processes used to plan and implement initiatives to help customers solve business problems.

◂ Jessica Newman, *Power Production*

A SUCCESSION OF CHALLENGES

One of our core strengths is the talented, skilled, long-serving employees that work at SaskPower. Approximately 75% of company positions require a university degree or post-secondary diploma or certificate. And almost 40% of our permanent employees have been with SaskPower for more than 20 years.

Over the next 10 years, 31% of our workforce will retire and 67% will be eligible for retirement. Over the next five to seven years, more than half of SaskPower's executive and managers are likely to leave the organization. This means we will be requiring a wide variety of labourers, technical and professional skilled people to fill the gap.

Existing programs — including leadership development and succession planning — are already supporting internal employee development and attracting highly competent external candidates. However, skills and trades are in high demand across Canada and around the world. As a result, SaskPower must also offer competitive, market-based compensation. Failure to do so will make it difficult for us to attract and retain employees who will contribute to our success in the highly specialized ways we require.

Another important factor in maintaining our workforce is employee engagement. Following the completion of a corporate-wide employee survey, we identified the need for changes in the areas of senior leadership, recognition and performance review. Our overall plan to develop diverse and engaged employees will focus on five key areas: quality hires; competitive pay and benefits; a constructive work environment; strong leadership at all levels; and employee growth and development.

Our commitment to diversity includes a desire for an increased presence of First Nations and Metis employees at SaskPower. As a result, we are extending diversity efforts to the hiring of summer students, cooperative education students and apprentices, as well as career awareness education initiatives. SaskPower currently works in partnership with a number of Aboriginal organizations.

A COMMUNITY CONNECTION

In addition to strengthening the quality of life in Saskatchewan through the service we provide, SaskPower uses its powerful role as a corporate citizen to make strategic investments in communities throughout the province. Through our Corporate Contributions Policy and a budget of over $1 million, we partner with non-profit organizations to deliver over 800 events and programs annually. Priorities include education, environment and community involvement (sports and culture).

In 2006, SaskPower and the Saskatchewan Association of Agricultural Societies and Exhibitions were presented with a Saskatchewan Waste Minimization Award for their work on the Clean Team, which encourages environmental responsibility by diverting waste from landfills. We also developed a new partnership with Nature Saskatchewan to support the Stewards of Saskatchewan Program, which engages rural landowners by promoting the conservation of natural and wildlife habitat.

SaskPower also continues our support of the Saskatchewan Safety Council's Power Pac program, an educational initiative that has reached over 250,000 children about safety-related issues. Meanwhile, the Northern Reading Program is promoting literacy and a lifelong love of reading to children and young adults throughout Northern Saskatchewan.

Funding for Special Olympics Saskatchewan is supporting "Training For Life" Breakfasts, which raise funds for both the Special Olympics and Saskatchewan's Western Hockey League club educational funds. SaskPower was also proud to sponsor the First Nations Winter Games, hosted by the Gordon First Nation. It is a multi-sport event founded to encourage Aboriginal youth to enter mainstream sport.

SaskPower's Shand Greenhouse once again sponsored the annual Energy & Our Environment Poster Contest. It invites students in grades five and six to promote ways of addressing climate change. The Shand Greenhouse has distributed nearly five million seedlings for conservation and wildlife habitat projects across Saskatchewan.

David Regnier, *Customer Services* ▸

Management's discussion and analysis

Management's discussion and analysis (MD&A) highlights the primary factors that have an impact on the financial results and operations of Saskatchewan Power Corporation (SaskPower, the Corporation). It should be read in conjunction with the audited financial statements and accompanying notes. This MD&A contains forward-looking statements based on the Corporation's estimates and assumptions concerning future results and events. Due to the risks and uncertainties inherent in any forecasted outlook, the actual results of the Corporation could differ materially from those anticipated.

THE COMPANY

Profile

SaskPower is the principal supplier of electricity in Saskatchewan. Its vision: "People and innovation . . . powering Saskatchewan to a bright future."

The Corporation traces its origins to the Saskatchewan Power Commission that was founded in 1929. In 1949, SaskPower was incorporated as a provincial Crown corporation under the authority and mandate of *The Power Corporation Act* (the Act). While this act has had a number of modifications over its lifetime, SaskPower's mission – to deliver power in a safe, reliable and sustainable manner – has not fundamentally changed.

The Act grants SaskPower the exclusive franchise and exclusive obligation within the province (except for the City of Swift Current and the City of Saskatoon) to supply, transmit and distribute electricity, as well as to provide retail services to customers. The Corporation opened Saskatchewan's wholesale electricity market to competition through the posting of an open access transmission tariff (OATT) in 2001. The OATT allows competitors to schedule access to the Corporation's transmission system, thereby allowing them to wheel power through Saskatchewan or sell to SaskPower's wholesale (reseller) customers. The reseller class of customer is restricted to the two cities that retained their municipal franchise.

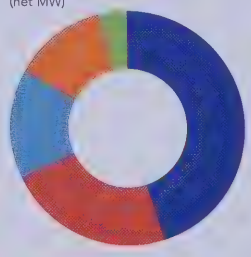
SaskPower serves more than 445,000 customers and manages $4.2 billion in assets. In 2006, the Corporation contributed more than $900 million to the provincial economy through the procurement of over 80% of goods and services from Saskatchewan suppliers; the payment of wages and benefits to employees; the purchase of coal; and the acquisition of electricity from independent power producers. Contributions also include $16 million in grants-in-lieu of taxes payable to local governments and approximately $50 million in coal royalties, water rentals and provincial corporate capital tax payable directly to the Province of Saskatchewan. The Corporation also collected $40 million in municipal surcharges for redistribution to 416 cities, towns and villages.

SaskPower has 2,458 permanent full-time employees who are employed in three business units, four corporate groups and three wholly-owned subsidiaries.

SaskPower maintains 155,055 kilometres (km) of power lines (12,212 km transmission and 142,843 km distribution). This extensive network is designed to serve Saskatchewan's large geographic area and widely-dispersed population. The Corporation supplies about three customers per circuit kilometre, while most utilities in North America average about 12 customers over the same distance.

SaskPower's aggregate generating capacity as at December 31, 2006, was 3,668 megawatts (MW). This includes the 3,214 MW capacity of SaskPower's assets – three coal-fired stations, seven hydro stations, four natural gas stations and two wind generation facilities.

2006 generation capacity
(net MW)



Coal 45%
Hydro 23%
Gas 15%
Purchased power 13%
Wind 4%

Total generation capacity: 3,668 MW

SaskPower has a diversified portfolio of assets to supply its generation requirements.

The Corporation also has available generation capacity of 454 MW through long-term power purchase agreements with the gas-fired Cory Cogeneration Station near Saskatoon, the Meridian Cogeneration Station at Lloydminster, the SunBridge Wind Power Project near Swift Current and the NRGreen Kerrobert Heat Recovery Project.

In addition, the Corporation has interconnections at the Manitoba, Alberta and North Dakota borders. These interconnections provide SaskPower with the capability to import or export electricity to meet higher internal demand or to take advantage of export market opportunities. Under normal system conditions, the import capability is 250 MW from Manitoba, 75 MW from Alberta and 150 MW from North Dakota. The import from Manitoba and North Dakota – as well as export to Alberta – is interdependent; the capabilities can not be achieved simultaneously. The export capability is 275 MW to Manitoba, 153 MW to Alberta and 200 MW to North Dakota. These interconnection capabilities vary with system conditions, including generation and load level. In compliance with OATT, SaskPower is required to compete with other suppliers for access to these interconnections.

Long-term supply plan

SaskPower's future will see an expanded need for capital investment as the Corporation renews its infrastructure. Over the next 20 years, SaskPower will need to replace or build nearly 2,000 MW of generation capacity to accommodate demand. SaskPower must make the decision on a new generating facility in 2007, with investment expected to begin later in the year. A feasibility study into clean coal technology is being pursued, along with an examination of a variety of options that include: hydro, polygeneration, natural gas, cogeneration, purchased power, imports, nuclear, demand side management, wind and biomass.

A critical factor in making any supply source decision will be evolving environmental regulation. Standards are becoming more stringent for all industries, including companies involved in the generation, transmission and distribution of electricity. The role of new greenhouse gas (GHG) emissions regulations is particularly significant, but is by no means the sole issue at stake.

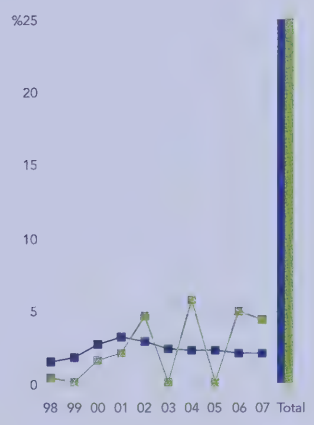
Less visible — but equally critical and costly for SaskPower — is the need to replace and upgrade transmission and distribution lines. The investment is more incremental than that required for generating facilities, and is essential if SaskPower is to continue to succeed in successfully serving its customers.

Rate review process

Electricity pricing in Saskatchewan is subject to review by the Saskatchewan Rate Review Panel (the Panel) with final approval by cabinet. In October 2006, the Corporation submitted a rate application to the Panel requesting a 4.3% system-wide rate increase effective January 1, 2007.

In December 2006, the Panel completed its review of SaskPower's application and advised cabinet that it approve the Corporation's system-wide average rate increase of 4.3%. In January 2007, cabinet accepted the Panel's recommendation and approved the rate increase effective February 1, 2007. The rate increase is expected to provide SaskPower with approximately $50 million of additional revenue in 2007.

Ten-year comparison of rate changes to changes in consumer price index



Consumer price index % change
System average rate % change

Over the last 10 years, system average rate increases have remained in line with the cumulative rate of inflation.

STRATEGIC PRIORITIES AND CORPORATE BALANCED SCORECARD

Throughout 2006, SaskPower embarked on a process to renew its strategic direction in light of a changing business environment. SaskPower previously focused on a vision of an evolving electricity market structure in the province. Recognizing the need to emphasize infrastructure and workforce renewal, as well as the provision of an essential service central to Saskatchewan's well-being, the Executive and Board developed a new vision: "People and innovation . . . powering Saskatchewan to a bright future." The statement provides a relevant focus as the Corporation strives to succeed in its evolving operating environment.

The components of the vision have been reflected in the newly-developed strategic plan. On a preliminary basis, new areas of concentration have been identified which build on the foundations of the recent past. These will be refined in the coming year and future business plans will reflect the modified strategic direction.

While the vision has been completely amended, SaskPower's mission and values have essentially remained the same. The mission is: "Safe, reliable and sustainable power to our customers." It reflects the day-to-day objective of keeping Saskatchewan's lights on while providing the electricity necessary to run SaskPower's customers' homes, farms and businesses.

SaskPower's values statement is: "Respect, integrity and openness in all we do." It communicates the way employees strive to relate to each other, as well as with external stakeholders such as customers, suppliers and business partners. Living these values is important to all of SaskPower's employees and reflects what Saskatchewan's citizens expect from the Corporation.

Measuring progress in achieving the objectives within SaskPower's strategic and business plans are managed through the corporate balanced scorecard. While the strategic direction was modified in 2006, a new corporate balanced scorecard was being developed for 2007. As work on refining the strategic plan continues, the balanced scorecard will also be modified. There have been significant changes to this year's scorecard, with the most visible adjustment being its alignment with the traditional scorecard components — financial, customer, process and people perspectives. A number of strategic objectives were identified while SaskPower developed its new strategic plan. The key objectives have been incorporated into the scorecard, with measures and targets in place to track progress.

A) Financial

The first strategic objective that relates to SaskPower's financial performance is: "Innovative improvements in the electricity value chain." Innovation will ensure the sustainability of SaskPower in its future operations by reducing costs, increasing the productivity and capability of existing assets and providing new sources of revenue. The second strategic objective is: "Stimulate the Saskatchewan economy." It refers to the direct financial impact that the Corporation has on the province's economic well-being.

	Strategic objectives	Measures	2004 actual	2005 actual	2006 actual	2006 target	2007 target
Financial	Innovative improvements in the electricity value chain	Per cent debt ratio (%)	58.2	60.9	61.0	61.0	61.4
		Return on equity (%)	4.8	9.2	6.4	6.5	9.0
	Stimulate the Saskatchewan economy	Saskatchewan content in SaskPower purchases (%)	83	83	84	75	75

Per cent debt ratio – A measure of debt expressed as a percentage of the total corporate financing structure. The target reflects a prudent level of debt for an electrical utility. The 2006 per cent debt ratio of 61.0% was on target for the year.

Return on equity – A measure of net income for the year expressed as a percentage of total equity. The target reflects an appropriate rate of return relative to other Canadian electrical utilities. The return on equity was substantially on target for the year. The net income results are explained in detail in the financial results section.

Saskatchewan content in SaskPower purchases – A measure of the percentage of goods and services that were procured from Saskatchewan vendors (excluding fuel and purchased power). SaskPower has an active program of supplier development and seeks to source over 75% of its goods and services from Saskatchewan-based firms. In 2006, the Corporation exceeded its target.

B) **Customer**

SaskPower exists to deliver its services to the people and businesses of Saskatchewan. There is one strategic objective associated with the customer quadrant: "Service delivery renewal." This is a multi-phase, multi-year program that is expected to result in a substantial increase in overall customer satisfaction through the implementation of improved customer service business processes and the supporting technology infrastructure.

	Strategic objectives	Measures	2004 actual	2005 actual	2006 actual	2006 target	2007 target
Customer	Service delivery renewal	Reliability System Average Interruption Duration Index (SAIDI)	3.3	4.2	4.1	4.3	3.5
		Reliability System Average Interruption Frequency Index (SAIFI)	1.7	1.7	1.7	1.7	1.7
		Customer satisfaction index (%)	38	45	46	52	49
		Average annual rate increases (%)	5.65	-	4.9	5.0	4.3

Reliability System Average Interruption Duration Index (SAIDI) – A measure of the average service interruption length in hours from a customer's point of view. This is used to track the Corporation's performance in responding to outages. The target reflects a normal year for SaskPower. The SAIDI measure was slightly better than the 2006 target.

Reliability System Average Interruption Frequency Index (SAIFI) – A measure of the average service interruption frequency from a customer's point of view. This is used to track the overall performance of SaskPower's distribution system. The target reflects a normal year for SaskPower. The SAIFI measure was on target in 2006.

Customer satisfaction index – A measure of the percentage of customers who are "completely or very satisfied" with SaskPower's level of service. The target reflects SaskPower's objective of achieving continual improvement in the level of customer satisfaction. The 2006 results are marginally below target but are a slight improvement over the 2005 results. The Service Delivery Renewal Program is expected to have a significant impact on this measure.

Average annual rate increases – A measure of SaskPower's system average rate increases during the year. It is the Corporation's objective to keep future rate increases to a minimum. The 5% target represents a threshold of what are considered to be moderate and reasonable rate increases. The rate increases introduced in 2006 and the beginning of 2007 have been in compliance with the target.

C) **Process**

SaskPower's internal processes are a basis for future achievement in all aspects of the Corporation's operations. There are three strategic objectives associated with this quadrant that summarize the importance of this area to SaskPower's overall business success. The first is: "Make safety part of everything we do." SaskPower's safety record has improved in recent years but remains less than ideal. Continued improvement in safety processes and practices is essential for the welfare of SaskPower's most important asset — its people. It will take a significant effort over a prolonged period to achieve the Corporation's ideal result of an injury-free workplace. The second strategic objective is: "Improve sourcing practices." This relates to the recruitment of new SaskPower employees. The long-term goal is to have a workforce that is representative of the customers the Corporation serves. The final strategic objective is: "Improve operating and business process efficiencies."

	Strategic objectives	Measures	2004 actual	2005 actual	2006 actual	2006 target	2007 target
Process	Make safety part of everything we do	Injury severity rate	143	40	58	40	50
		Injury frequency rate	2.7	1.9	1.6	2.5	1.4
	Improve sourcing practices	Diversity candidates (%)	•	•	•	•	40
	Improve operating and business process efficiencies	Coal unit availability 1-year average (EAF%)	87.1	86.9	82.0	83.6	86.1
		Generating fleet (EAF%)	•	•	•	•	89.1
		Unqualified EMS audit reports (%)	•	•	100	100	100

• Denotes actuals or targets were not available or reported for that time period.

Injury severity rate – A measure of the severity of injuries incurred at work during the year based on the number of days lost due to injury. The 2006 injury severity rate of 58 was not on target. The long-term objective is to have an injury-free workplace.

Injury frequency rate – A measure of the number of injuries or illnesses that result in lost work time during the year. The 2006 injury frequency rate of 1.6 was much better than the target, and an improvement over 2005. The targets were set with the objective of achieving steady improvements in this area.

Diversity candidates – A new measure of the percentage of diversity candidates that are made available for hiring at SaskPower. A strong pool of diversity candidates is considered critical to the Corporation's success in developing a workforce that more closely represents the community SaskPower serves. The second indicator — success in *hiring* diversity candidates — can be found in the people section of the scorecard. A target of 40% diversity candidates among all applicants is considered necessary to enable the Corporation to achieve its long-term objectives.

Coal equivalent availability factor (EAF) – A measure of the overall availability of coal units to generate at their maximum continuous rating in a given period. Considering the relatively inexpensive fuel associated with the coal fleet, a high level of coal unit availability is an important factor in minimizing SaskPower's fuel and purchased power costs. The coal equivalent availability factor target is based on management's expectations for the year. The coal unit availability of 82% was below target in 2006 due to the unscheduled extension of the Poplar River Power Station Unit #2 overhaul. The unscheduled extension at Poplar River was partially offset by improved performance at the Boundary Dam Power Station and Shand Power Station.

Generating fleet equivalent availability factor (EAF) – A new measure of the overall availability of the generating fleet to generate at its maximum continuous rating in a given period. This measure demonstrates the effectiveness of the Corporation's overall generation asset maintenance strategy. The wider availability of the entire fleet provides SaskPower with the ability to optimize the operation of the Corporation's generation facilities. The generating fleet equivalent availability factor target is based on management's expectations for the year.

Unqualified Environmental Management System (EMS) audit reports – A measure of the percentage of unqualified (successful) reports received on audits conducted each year on SaskPower's ISO 14001 registered units. This measure relates to the Corporation's commitment to minimize its environmental footprint and continuously improve its environmental performance. The target of 100% success represents SaskPower's commitment to maintain its ISO 14001 registration.

D) **People**

There are four strategic objectives associated with this quadrant. The first is: "Diverse, engaged employees." Engaged employees are those that speak positively about the organization to co-workers, potential employees and customers; have an intense desire to be a member of the organization; and exert extra effort and are dedicated to doing the very best job possible to contribute to the organization's success. Ensuring the Corporation's employees are highly engaged is an important factor in enabling SaskPower to retain its highly skilled workforce in increasingly competitive employment markets.

The second strategic objective is: "Attract diversity." It focuses on employees in four designated target groups: Aboriginal people, women in non-traditional roles, people with disabilities and visible minorities. SaskPower is seeking an outcome that will create a workforce that more closely matches Saskatchewan's demographics. This goal will also increase customer sensitivity, as well as improve the Corporation's internal culture.

The third strategic objective is: "Develop and exhibit strong leadership at all levels." Recent employee survey results indicated a desire for continuous improvement in the leadership exhibited at SaskPower. An enhancement in leadership is expected to translate into a higher level of employee engagement.

The final strategic objective is: "Support employee growth and development." SaskPower's business requires highly skilled and trained staff at all levels and in all occupations. Continuous learning is a vital component in achieving the required skill levels.

	Strategic objectives	Measures	2004 actual	2005 actual	2006 actual	2006 target	2007 target
People	Diverse, engaged employees	Employee engagement index (%)	•	•	•	•	39
		Employee retention index (%)	•	•	•	•	<3
	Attract diversity	Net increase in diversity employees	•	•	•	•	60
	Develop and exhibit strong leadership at all levels	Performance management appraisals (%)	•	•	•	•	100
	Support employee growth and development	Total dollars spent on employee training as a percentage of payroll (%)	•	•	•	•	1.5

• Denotes actuals or targets were not available or reported for that time period.

Employee engagement index – A new measure of the degree to which employees speak positively about the organization. The intent is to assess employee engagement and retention on a regular basis and to improve the score to levels indicative of solid progress. The target of 39% represents a relatively low starting point that is reflective of the Corporation's current state. While there are many cultural factors that may have resulted in the relatively low starting point, there are activities and initiatives planned that will move SaskPower in an appropriate direction.

Employee retention index – A new measure of the number of voluntary resignations as a percentage of permanent staff. A target level of less than 3% has been established.

Net increase in diversity employees – A new measure of the number of employees hired during the year from any of the four designated target groups (Aboriginal people, women in non-traditional roles, people with disabilities and visible minorities). The target has been set as a starting point to move the organization toward its goal of having a workforce more representative of Saskatchewan's population.

Performance management appraisals – A new measure of the percentage of performance management appraisals completed during the year. The target is to have 100% of performance management appraisals completed annually. This activity is a key component of the culture that SaskPower is seeking to instill in its leadership group. Setting expectations, linking them to SaskPower's strategies and annual business plan, and reviewing past performance is essential to this process.

Total dollars spent on employee training as a percentage of payroll – A new measure of the total dollars invested in employee training as a percentage of payroll costs. The target represents a starting point with a long-term objective of 2% of payroll costs.

FINANCIAL RESULTS

(in millions)	2006	2005	Change
Revenue	$ 1,456	$ 1,326	$ 130
Expense	1,363	1,195	168
Net income	$ 93	$ 131	$ (38)
Return on equity[1]	6.4%	9.2%	(2.8)%

1. Return on equity = (net income)/(average equity), where average equity = [(total equity at year-end + total equity at previous year-end)/2].

Highlights

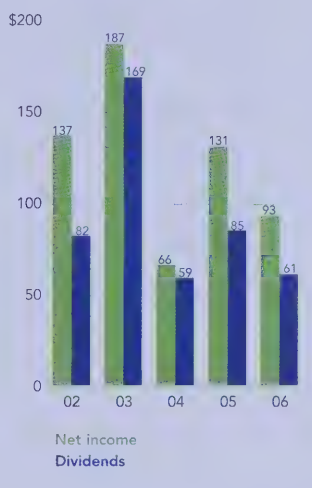
SaskPower's consolidated net income was $93 million in 2006, a decrease of $38 million from 2005. The reduction in earnings was due to a $168 million increase in expense offset by a $130 million improvement in revenue. This resulted in a return on equity of 6.4% compared to 9.2% in the previous year.

The $168 million increase in expense was largely due to a $44 million rise in fuel and purchased power costs primarily as a result of a change in the generation mix and $66 million of additional electricity trading costs due to increased trading activity. There was also a $24 million increase in operating, maintenance and administration (OM&A) expenses due to rising costs for salaries and benefits, as well as new spending on the clean coal feasibility study. Depreciation was up $18 million due to a higher asset base, while finance charges were up $14 million as a result of lower sinking fund earnings and lower interest capitalized.

The $130 million improvement in revenue was attributable to an $88 million increase in Saskatchewan sales, primarily due to the 4.9% system-wide rate increase implemented on January 1, 2006. There was also a $72 million increase in electricity trading revenue due to increased opportunities in the Alberta and in the Midwest Independent Transmission System Operator (MISO) markets. These increases were partially offset by a $39 million decline in SaskPower-sourced exports.

In 2006, SaskPower declared $61 million in dividends compared to $85 million in 2005.

Net income and dividends
(in millions)



Over the last five years, SaskPower has declared $456 million in dividends payable to the Crown Investments Corporation of Saskatchewan.

Outlook

SaskPower expects to earn $135 million in 2007, resulting in a return on equity of 9.0%. The projected increase in earnings is largely a result of the rate increase of 4.3% implemented February 1, 2007.

These earnings expectations are subject to a number of variables including: natural gas prices; coal and hydro availability; weather; economic conditions; number of customers; and market conditions in other jurisdictions.

A) Saskatchewan sales — System-wide rate adjustment improves revenue

(in millions)	2006	2005	Change
Saskatchewan sales	**$ 1,269**	$ 1,181	$ 88

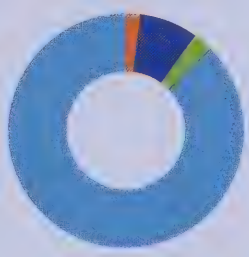
Revenue from Saskatchewan electric sales was $1,269 million in 2006, up $88 million from 2005. The rise in Saskatchewan sales revenue was due largely to the 4.9% system-wide average rate increase that came into effect January 1, 2006. The rate increase provided approximately $59 million in incremental revenue.

Also contributing to the improvement in revenue was a modest increase in electric sales volumes. Electric sales volumes in the province are driven by general economic conditions, number of customers and weather. In 2006, electric sales volumes to Saskatchewan customers were 17,400 gigawatt hours (GWh), up 267 GWh or 1.5% from the prior year. Sales volumes were up marginally to all customer classes, with the exception of farm customers where volumes were down slightly.

Outlook

The Corporation expects Saskatchewan sales revenues to increase to $1,325 million in 2007 due to the effect of the 4.3% rate increase implemented on February 1, 2007. This forecast is subject to significant variability as a result of weather, economic conditions, supply and the number of customers.

2006 revenue



Saskatchewan sales 87%
Export sales 2%
Electricity trading 8%
Other 3%

Total revenue: $1,456 million

While electricity trading sales increased in 2006, Saskatchewan sales continued to make up the bulk of SaskPower's revenue.

B) Export sales — *Prices and volumes down*

(in millions)	2006	2005	Change
Export sales	**$ 29**	$ 68	$ (39)

Export sales include the sale of SaskPower's surplus generation to other regions in Canada and the United States. Exports are made only after ensuring Saskatchewan demand requirements can be met. Export pricing is not subject to the rate review process and is priced by the external market. Export sales volumes are dependent on surplus SaskPower generation, market conditions in other jurisdictions and transmission availability.

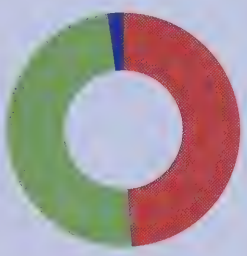
Export sales decreased from $68 million in 2005 to $29 million in 2006. This decrease is primarily due to lower sales volumes, which decreased 568 GWh compared to 2005. The decline is due in part to the major overhaul at Poplar River Power Station Unit #2, which reduced total available generation. In addition, the average export price of $61/MWh was down $4/MWh from 2005.

Also contributing to the decline in exports is a reduction in the tie-line capacity. This is due to transmission congestion in jurisdictions external to Saskatchewan and changes to SaskPower's transmission operating guidelines.

Outlook

Exports are expected to increase to $50 million in 2007 with a corresponding improvement in coal fleet availability. This forecast is subject to market conditions in other jurisdictions, availability of supply and access to transmission lines to deliver the electricity to the external markets.

2006 export sales by market



Export sales: $29 million

SaskPower's exports are made primarily to the Alberta and MISO markets.

C) Electricity trading — *Trading opportunities create profit*

(in millions)	2006	2005	Change
Electricity trading revenue	$ 118	$ 46	$ 72
Electricity trading costs	103	37	66
Gross margin from electricity trading	$ 15	$ 9	$ 6

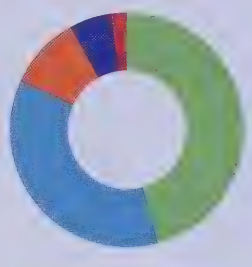
Electricity trading activities, performed by SaskPower's subsidiary NorthPoint, include the purchase and resale of electricity and other electricity-related commodities and derivatives from regions outside Saskatchewan. Electricity trading revenues were $118 million in 2006, compared to $46 million in 2005. This increase is due to a 1,027 GWh rise in trading volumes mainly as a result of increased sales volumes to the Alberta and MISO markets. In addition, the average sales price of $71/MWh was up $7/MWh from 2005, primarily due to higher prices received from the Alberta market. These increases were offset by a $4 million decline in other energy market revenue.

While electricity trading revenues were up, the gross margin — or net revenue after deducting related fuel and purchased power costs — was $15 million or 13% in 2006, compared to $9 million or 20% in 2005. The gross margin percentage was higher in 2005 due to the significant amount of other energy market revenue received.

Outlook

Electricity trading revenues and margins are expected to decline to $90 million and $5 million respectively in 2007, with a return to more stable market conditions in the short-term. These expectations are subject to significant variability as a result of weather, economic conditions and market conditions in other jurisdictions.

2006 electricity trading by market



Alberta 46%
MISO 36%
Ontario 10%
PJM 6%
Pacific NorthWest 2%

Electricity trading revenue: $118 million

SaskPower's trading activities are primarily concentrated in the Alberta and MISO markets. However, the Corporation has recently started to diversify into other markets.

D) Other revenue — *Improved MRM Cogeneration Station equity earnings*

(in millions)	2006	2005	Change
Other revenue	$ 40	$ 31	$ 9

Other revenue rose from $31 million in 2005 to $40 million in 2006. The increase was largely due to improved equity investment income from the MRM Cogeneration Station, which earned $9 million in 2006 compared to $3 million in 2005. The improved equity investment income was primarily the result of higher average Alberta Power Pool prices — $80/MWh in 2006 compared to $70/MWh in 2005. In addition, average Alberta natural gas prices were down in 2006 — $6/gigajoule (GJ) in 2006 compared to $8/GJ in 2005.

Outlook

Other revenue is expected to decline to $36 million in 2007 as earnings from the MRM Cogeneration Station return to near 2005 levels.

A) Fuel and purchased power – *Change in generation mix*

(in millions)	2006	2005	Change
Fuel and purchased power	**$ 498**	$ 454	$ 44

The Corporation's fuel and purchased power costs include the fuel charges associated with the electricity generated from SaskPower-owned facilities, energy purchased through power purchase agreements, as well as electricity imported from markets outside Saskatchewan. This electricity is used to serve the Corporation's Saskatchewan customers, with surplus electricity being sold to markets outside the province when favourable conditions exist.

SaskPower's fuel cost management strategy focuses on the economic dispatch of the generating units that bring the lowest incremental cost units on stream first. In general, this means maximizing hydro and coal generation, which have the lowest incremental cost per unit of generation. Hydro generation is dependent upon water levels at the Corporation's hydro facilities and coal generation is a product of the availability of the Corporation's coal plants. Wind generation, the lowest incremental cost source of electricity, can not be dispatched on a planned basis as it is dependent upon wind conditions.

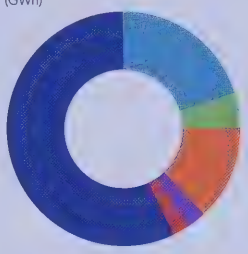
Total fuel and purchased power costs in 2006 were $498 million, compared to $454 million in 2005. The $44 million increase is due to a change in the fuel mix and an increase in the average price of imports and coal generation offset by a decrease in generation volumes.

The fuel mix is the relative proportion that each fuel source contributes to SaskPower's total fuel supply. The more energy that is generated from lower incremental cost units such as hydro, coal and wind, the more favourable the impact on fuel and purchased power costs. In 2006, hydro generation volumes decreased by 541 GWh as water levels at hydroelectric plants were lower than the exceptional levels achieved in the prior year. Hydro generation accounted for 20% of the total generation in 2006, compared to 23% in 2005. In addition, coal generation was down 359 GWh due to an extended overhaul at the Poplar River Power Station.

These unfavourable changes in the fuel mix were partially offset by 475 GWh of additional wind generation received from the new Centennial Wind Power Facility. However, the net shortfall in hydro, coal and wind generation was replaced with more expensive sources of electricity, such as cogeneration and natural gas.

2006 gross electrical energy supplied

(GWh)

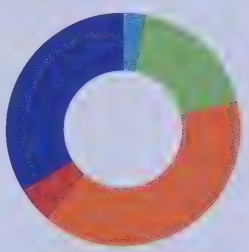


Coal 57%
Hydro 20%
Gas 5%
Purchased power 13%
Wind 3%
Imports and other 2%

Gross electrical energy supplied: 19,823 GWh

Coal and hydro generation provided 77% of SaskPower's electrical requirements in 2006.

2006 fuel and purchased power



Coal 34%
Hydro 3%
Gas 18%
Purchased power 40%
Imports and other 5%

Fuel and purchased power: $498 million

Coal and hydro represent 37% of the total fuel and purchased power costs, while providing the bulk of SaskPower's electrical requirements.

Adding to the unfavourable change in the fuel mix was an increase in the average price of imports and coal generation. The average import price of $58/MWh was an increase of $11/MWh over 2005. Coal generation costs were also up as the result of higher royalties and contract price increases. In addition, there was a higher consumption of fuel oil used to start-up or supplement the Poplar River Power Station coal-fired generation units. SaskPower's cost of natural gas was relatively unchanged from the prior year. These increases were partially offset by a reduction in the volume of electricity generated, largely due to the extended overhaul at Poplar River Power Station Unit #2. Total generation and purchased power of 19,823 GWh was a decrease of 127 GWh over the prior year.

Outlook

Fuel and purchased power costs are expected to decline to $476 million in 2007 as a result of an improvement in the fuel mix due to an increase in coal generation. Fuel and purchased power is the Corporation's most volatile expense and has the potential to vary dramatically. The factors that will have the biggest impact on fuel costs in 2007 are coal and hydro generation availability; natural gas and import prices; and the level of Saskatchewan and export sales.

B) Operating, maintenance and administration (OM&A) — Higher salaries and benefits and clean coal feasibility study add to costs

(in millions)	2006	2005	Change
Operating, maintenance and administration	**$ 360**	$ 336	$ 24

OM&A expense was $360 million in 2006, compared to $336 million in 2005. This $24 million increase was largely the result of a $14 million increase in salaries and benefits, as well as $10 million in feasibility study costs related to the Clean Coal Project.

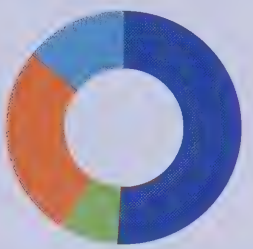
The increase in salaries and benefits was the result of general economic increases, additional staff hirings and job classification adjustments for certain members of the International Brotherhood of Electrical Workers (IBEW) union. These increases were partially offset by an increase in the pension credit due to improved pension plan earnings, additional amounts of labour capitalized and a one-time charge for a defined severance plan recorded in 2005.

The Corporation experienced an overall increase in other OM&A costs due to a growth in the cost of external services and materials for maintenance at the Corporation's power plants and transmission and distribution facilities. This increase was offset by a reduction in bad debt expense as SaskPower recorded a $7 million provision in 2005 related to the Meadow Lake Pulp Limited Partnership receivable.

Outlook

SaskPower expects OM&A costs to increase to $386 million in 2007 due to salary and benefit increases as a result of collective bargaining settlements. The Corporation is also expecting to incur additional costs for initiatives such as a redesign of the service delivery process, the development of a demand side management program and an increased focus on vegetation management.

2006 OM&A expense



Salaries and benefits 51%
External services 27%
Other 14%
Materials and supplies 8%

OM&A expense: $360 million

Salaries and benefits are the largest portion of OM&A. Additional administration expenses include bad debt, vehicles, insurance and other costs.

C) Depreciation — Increased due to larger asset base and write down of carbon offsets

(in millions)	2006	2005	Change
Depreciation	**$ 207**	$ 189	$ 18

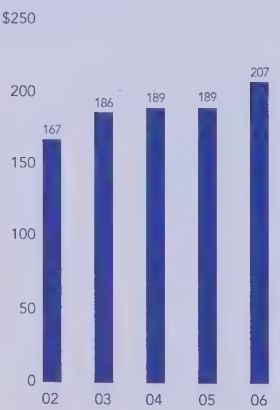
Depreciation expense amounted to $207 million in 2006, up $18 million from 2005. The increase in depreciation expense is largely attributable to a higher asset base due in part to the capitalization of the Centennial Wind Power Facility.

Also included in depreciation expense is a $6 million charge to write down the value of carbon offsets the Corporation had purchased from the Province of Saskatchewan. The carbon offsets provided SaskPower with the rights to GHG reduction credits that result from sequestration of GHG through defined forest management activities conducted by the province. The carbon offsets have been written down to nil in 2006 as their future value is considered uncertain. It is management's expectation that the GHG reduction activities will predate the expected qualifying period of any future federal carbon offset system.

Outlook

In 2007, depreciation expense is expected to continue to increase to $217 million as a result of the growing asset base.

Depreciation
(in millions)



Depreciation costs have increased as the Corporation continues to add to its asset base.

D) Finance charges — Higher due to lower sinking fund earnings and reduced interest capitalized

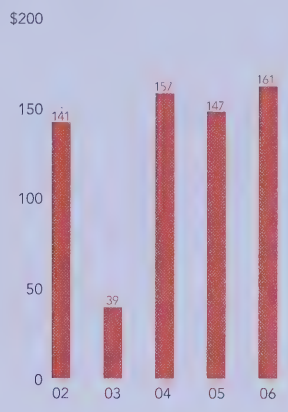
(in millions)	2006	2005	Change
Finance charges	**$ 161**	$ 147	$ 14

Finance charges of $161 million in 2006 were up $14 million from 2005. This increase in finance charges was largely due to both a decrease in sinking fund earnings as a result of lower returns and a reduction in interest capitalized with the commissioning of the Centennial Wind Power Facility.

Outlook

Finance charges are expected to be $167 million in 2007 as a result of an anticipated increase in the Corporation's debt.

Finance charges
(in millions)



Finance charges are the net of interest on recourse and non-recourse debt, foreign exchange gains/losses, miscellaneous interest income, sinking fund earnings and interest capitalized.

E) Taxes — Grow modestly

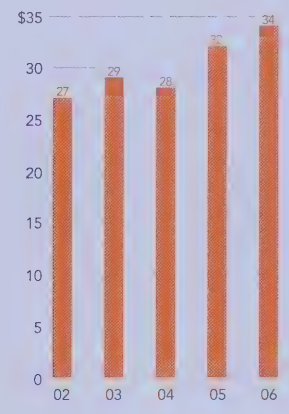
(in millions)	2006	2005	Change
Taxes	**$ 34**	$ 32	$ 2

Capital tax, grants-in-lieu of taxes and other taxes were $34 million in 2006, compared to $32 million in 2005. The slight increase is largely due to a rise in grants-in-lieu of taxes as a result of the growth in residential revenue. Grants-in-lieu of taxes are paid to 13 cities in Saskatchewan based on electric sales earned in accordance with agreements between SaskPower and those cities.

Outlook

Taxes are expected to increase moderately to $35 million in 2007.

Taxes
(in millions)



Tax levels have increased steadily as a result of the increase in Saskatchewan electric revenues and a growing capital tax base.

Liquidity and capital resources

SaskPower raises most of its capital requirements through internal operating activities and long-term debt through the Saskatchewan Department of Finance. Taking advantage of the Government of Saskatchewan's strong credit rating allows SaskPower to receive financing at attractive interest rates. SaskPower also has credit facilities of $51 million in place at financial institutions that it can draw upon. In accordance with *The Power Corporation Act*, SaskPower has the authority to have outstanding borrowings up to $5 billion.

The other major sources of financing utilized by the Corporation include non-recourse debt that was issued in 2001 to finance the Corporation's share of the Cory Cogeneration Station and $660 million in equity advances that were provided by CIC over the period of 1989–1992 to form CIC's equity capitalization in SaskPower.

Cash position – *Financing and investing requirements outweigh cash from operations*

(in millions)	2006	2005	Change
Cash and cash equivalents	**$ 20**	$ 65	$ (45)

Cash and cash equivalents were $20 million in 2006, down $45 million from the prior year. The $45 million decrease was the result of $258 million used in investing activities and a $42 million outflow of cash related to financing activities, offset by $255 million provided from operating activities.

A) Operating activities – *Lower earnings reduce operating cash position*

(in millions)	2006	2005	Change
Operating cash flow	**$ 278**	$ 310	$ (32)
Net change in non-cash working capital	**(23)**	(13)	(10)
Cash provided by operating activities	**$ 255**	$ 297	$ (42)

Operating cash flow was $278 million in 2006, down from $310 million in 2005. The $32 million decrease was the result of an increase in expenses partially offset by an improvement in revenues. There was also a $10 million increase in net working capital requirements in 2006, resulting in a $42 million decrease in cash provided by operating activities.

B) Investing activities – *Upgrading and expanding capital facilities*

(in millions)	2006	2005	Change
Generation	**$ 113**	$ 297	$ (184)
Transmission and distribution	**145**	150	(5)
Other	**27**	26	1
Total capital expenditures	**285**	473	(188)
Customer contributions and net cost of removals	**(22)**	(16)	(6)
Equity investment distribution	**(5)**	-	(5)
Cash used in investing activities	**$ 258**	$ 457	$ (199)

In order to ensure a safe, reliable and sustainable supply of electricity for its customers, SaskPower invested $285 million in various capital projects during 2006, compared to $473 million in 2005. Major capital investments included:

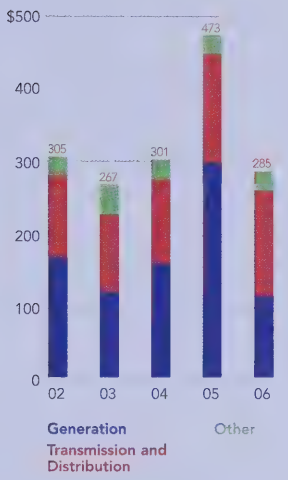
Generation

- $59 million to substantially complete the $130 million life extension of the 291-MW Poplar River Power Station Unit #2; and
- $11 million on the $140 million life extension of the 281-MW Poplar River Power Station Unit #1.

Transmission and distribution

- A record $82 million to connect customers to the SaskPower electric system, including approximately $38 million spent on oilfield customers;
- $9 million to replace aging wooden power poles to enhance the safety and reliability of overhead electrical lines; and
- $8 million for a dispatch radio system essential for the day-to-day operations of field staff across the province.

Capital expenditures
(in millions)



SaskPower has invested over $1.6 billion in its capital infrastructure over the last five years.

C) Financing activities – Net debt largely unchanged

(in millions)	2006	2005	Change
Cash (used in) provided by financing activities	**$ (42)**	$ 121	$ (163)

In 2006, $42 million of cash was used (outflow) for financing activities. In 2005, financing activities provided (inflow) $121 million. The $42 million outflow of cash was made up of $73 million in dividend payments to CIC, offset by $31 million of cash provided from the acquisition of new debt less debt repayments and sinking fund installments.

Long-term debt

The following table illustrates the total change in the Corporation's long-term debt:

(in millions)	2006	2005	Change
Gross long-term debt	**$ 2,515**	$ 2,467	$ 48
Less: sinking fund balances	**(201)**	(170)	(31)
Long-term debt, net of sinking funds	**2,314**	2,297	17
Less: current portion of long-term debt	**(89)**	(73)	(16)
Total long-term debt	**$ 2,225**	$ 2,224	$ 1
Per cent debt ratio[1]	**61.0%**	60.9%	0.1%

1. Per cent debt ratio = (debt)/(debt + equity), where debt = (long-term + current portion of long-term debt – cash and cash equivalents).

SaskPower's long-term debt position, net of sinking funds, was $2,314 million at December 31, 2006, up $17 million from December 31, 2005. The rise in net debt was the result of the following:

- The Corporation, through the Saskatchewan Department of Finance, borrowed an additional $100 million of long-term debt with an interest rate of 5.00% and a maturity date of March 5, 2037.
- The Corporation repaid $49 million of Canadian dollar denominated debt, with interest rates ranging from 9.36% to 10.72%.
- Through its subsidiary, SaskPower International Inc., the Corporation repaid $3 million of non-recourse debt.
- The sinking fund balances increased $31 million as a result of installments and earnings.

As a result of the increase in net debt, the Corporation's per cent debt ratio has risen slightly to 61.0% in 2006 from 60.9% in 2005.

Debt outstanding at December 31
(in millions)

Debt levels have been increasing to finance the Corporation's capital expenditures.

Contractual obligations
The Corporation had the following significant long-term contractual obligations as at December 31, 2006:

(in millions)	2007	2008	2009	2010	2011 and after	Total
Long-term debt	$ 66	$ 340	$ 7	$ 4	$ 2,098	$ 2,515
Sinking fund installments	23	23	20	20	380	466
Power purchase agreements	232	241	262	283	4,726	5,744

Outlook
SaskPower expects to continue to make substantial investments in its infrastructure. Capital expenditures in 2007 are forecast to be approximately $438 million. This includes costs to refurbish Poplar River Power Station Unit #1, upgrade various transformers and transmission lines, and connect new customers to SaskPower's grid. It also includes forecasted costs for the start of construction of a new generation facility late in 2007.

The Corporation's other financing requirements for 2007 will include the repayment of $66 million of high coupon (9.12% - 9.88%) and non-recourse debt, $23 million of required sinking fund contributions and $232 million in minimum payments under existing power purchase agreements. In March 2007, the Corporation borrowed an additional $100 million of Canadian debentures at an interest rate of 4.75%. The Corporation will evaluate the need for additional borrowings throughout the year.

SASKPOWER SUBSIDIARIES

SaskPower has three wholly-owned subsidiaries: SaskPower International Inc. (SaskPower International), NorthPoint Energy Solutions Inc. (NorthPoint) and Power Greenhouses Inc. (Shand Greenhouse).

Each subsidiary prepares and issues separate audited financial statements. The financial activities of SaskPower's subsidiaries are consolidated within the financial statements of SaskPower in accordance with Canadian generally accepted accounting principles (GAAP) as summarized below. Shand Greenhouse grows and distributes tree and shrub seedlings and operates on a break-even basis. The financial results of this subsidiary are not considered to be material and have been included in the SaskPower utility results.

2006 segmented statement of income and financial position

(in millions)

	SaskPower utility *(Notes 1 and 3)*		SaskPower International		NorthPoint		Adjusting entries *(Note 2)*		Consolidated SaskPower	
Statement of income	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005
Revenue	**$ 1,356**	$ 1,285	**$ 47**	$ 26	**$ 126**	$ 53	**$ (73)**	$ (38)	**$ 1,456**	$ 1,326
Expense	**1,265**	1,159	**31**	22	**108**	41	**(41)**	(27)	**1,363**	1,195
Net income	**$ 91**	$ 126	**$ 16**	$ 4	**$ 18**	$ 12	**$ (32)**	$ (11)	**$ 93**	$ 131
Statement of financial position										
Current assets	**$ 585**	$ 553	**$ 40**	$ 35	**$ 43**	$ 34	**$ (314)**	$ (257)	**$ 354**	$ 365
Property, plant and equipment	**3,575**	3,272	**120**	344	**-**	-	**-**	-	**3,695**	3,616
Other assets	**159**	151	**258**	46	**-**	-	**(303)**	(77)	**114**	120
Total assets	**$ 4,319**	$ 3,976	**$ 418**	$ 425	**$ 43**	$ 34	**$ (617)**	$ (334)	**$ 4,163**	$ 4,101
Current liabilities	**$ 358**	$ 287	**$ 258**	$ 262	**$ 28**	$ 21	**$ (309)**	$ (255)	**$ 335**	$ 315
Long-term debt	**2,138**	2,134	**87**	90	-	-	**-**	-	**2,225**	2,224
Other liabilities	**362**	124	**1**	1	-	-	**(228)**	1	**135**	126
Total liabilities	**2,858**	2,545	**346**	353	**28**	21	**(537)**	(254)	**2,695**	2,665
Equity	**1,461**	1,431	**72**	72	**15**	13	**(80)**	(80)	**1,468**	1,436
Total liabilities and equity	**$ 4,319**	$ 3,976	**$ 418**	$ 425	**$ 43**	$ 34	**$ (617)**	$ (334)	**$ 4,163**	$ 4,101

Notes:

1. Includes Shand Greenhouse expense of $1 (2005 - $1) and assets of $4 (2005 - $4).

2. Adjusting entries eliminate intercompany transactions upon consolidation.

3. SaskPower utility results are presented on a cost basis.

4. The subsidiary financial statements are available at saskpower.com.

SaskPower International

Profile

SaskPower International was established in 1994 as a wholly-owned subsidiary of SaskPower and is mandated to seek new sources of revenue for the Corporation. This includes investing in power-related projects and selling flyash.

SaskPower International currently has an ownership interest in three power generating stations as follows:

- The 228-MW Cory Cogeneration Station is located at the PCS Potash Cory Division. It is jointly owned on a 50/50 basis with ATCO Power. The electricity generated by the facility is sold to SaskPower under the terms of a 25-year power purchase agreement. The steam is delivered to the PCS Potash Cory Division for use in its industrial processes.
- The 170-MW MRM Cogeneration Station is located at the Athabasca Oil Sands Project's Muskeg River Mine, north of Fort McMurray, Alberta. It is owned 30% by SaskPower International and 70% by ATCO. The Muskeg River Mine uses all the steam output from the plant and currently uses approximately half of the electricity output. The remaining electricity is sold into the Alberta power grid.
- The 150-MW Centennial Wind Power Facility began commercial operations on March 15, 2006. It is located approximately 25 kilometres southeast of Swift Current. The electricity generated by this SaskPower International-owned facility is sold to SaskPower under the terms of an interim power purchase agreement.

SaskPower International's other business line is the marketing and sale of flyash, which is a byproduct of coal burned at SaskPower's Boundary Dam Power Station and Shand Power Station. The flyash is used in applications such as ready-mixed concrete, concrete block, pipe, paving stones and environmental remediation activities (including oil well cementing, mine backfill and road base stabilization).

Financial overview

Net income was $16 million in 2006, up $12 million from 2005, primarily due to an increase in equity investment income from the MRM Cogeneration Station and the commencement of commercial operations of the Centennial Wind Power Facility. SaskPower International declared $16 million in dividends payable to SaskPower in 2006.

Revenue

Total revenues were $47 million in 2006, an increase of $21 million from 2005. The increase was primarily due to the new revenues from the Centennial Wind Power Facility and an increase in equity investment income. In its first year of operation, the Centennial Wind Power Facility provided $15 million in revenue. Equity investment income from the MRM Cogeneration Station was $9 million in 2006, compared to $3 million in 2005. The increase in equity investment income was primarily the result of increased Alberta Power Pool sales at higher prices and lower natural gas prices in 2006 compared to 2005. The Alberta Power Pool is the wholesale market for electricity that is coordinated by the Alberta Electric System Operator (AESO). The average Alberta Power Pool price was $80/MWh in 2006 compared to $70/MWh in 2005. The average Alberta natural gas price was $6/GJ in 2006 compared to $8/GJ in 2005.

Expense

Total expense of $31 million in 2006 was $9 million higher than in 2005. The increase was primarily due to the start of commercial operations of the Centennial Wind Power Facility.

Outlook

SaskPower International's 2007 net income is expected to be $13 million, compared to $16 million in 2006. Higher net incomes from the Cory Cogeneration Station and Centennial Wind Power Facility are expected to be offset by reduced equity investment income from the MRM Cogeneration Station. Equity investment income is expected to decline due to lower projected Alberta Power Pool prices and higher projected Alberta natural gas prices than experienced in 2006.

MRM and Cory Cogeneration Station earnings are projected to be positive and vary from year to year, primarily due to each plant's maintenance cycle requirements. MRM Cogeneration Station earnings can also vary due to market fluctuations in the Alberta Power Pool and natural gas prices. The Centennial Wind Power Facility earnings are projected to be positive, but can vary from year to year, due to natural fluctuations in wind speeds.

Profile

NorthPoint is a wholly-owned subsidiary of SaskPower. It was formed in late 2001 to meet requirements associated with SaskPower's OATT that mandates the separation of transmission and wholesale marketing functions.

NorthPoint has a service agreement with SaskPower to perform generation and load management services, provide electricity export and import functions related to the generation assets of SaskPower, and to manage SaskPower's natural gas supplies for natural gas-fired power plants. The generation and load management services include coordinating the economic dispatch of SaskPower's total available capacity of 3,214 MW and the dispatch of 454 MW from four long-term power purchase agreements on a continuous basis. The electricity export and import functions include the selling of surplus generation to other jurisdictions and purchasing electricity for domestic load when shortfall in supply occurs or lower cost supply is available. Gas management services for SaskPower include coordinating and balancing SaskPower's natural gas requirements, managing injections to and withdrawals from SaskPower's natural gas storage assets, and managing natural gas price risk with physical and financial hedging activity.

NorthPoint also acts as a principal in wholesale electricity trading transactions that do not relate to the generation assets of SaskPower. In Canada, it operates in Alberta, Manitoba and Ontario. In the United States (U.S.), it actively participates in markets in the Northwest, Mid-Continental, and East. NorthPoint operates mainly under two umbrella-trading agreements: Mid-Continent Energy Marketers Association Tariff and Western Systems Power Pool Agreement.

Financial Overview

Net income for 2006 was $18 million, an increase of $6 million over 2005. NorthPoint declared $16 million in dividends payable to SaskPower, a significant increase over the 2005 dividend.

Revenue

Electricity trading revenue was $118 million in 2006, compared to $46 million in 2005. The $72 million increase in 2006 over 2005 reflects a 1,027 GWh increase in volumes, and a $7/MWh increase in average sale prices due to higher prices during the latter part of the year. There was also a decrease of $4 million in other energy market revenue. The majority of electricity revenue — $67 million — came from Canadian counterparties, with the remaining $51 million coming from U.S. counterparties. Sales to U.S. counterparties continued to increase in 2006, as NorthPoint increased volumes in the Midwest Independent Transmission System Operator (MISO) market, and entered the Pennsylvania, New Jersey & Maryland (PJM) interconnection market as well.

Despite an associated increase in the average purchase price, the margin earned on electricity sales in 2006 was $15 million or 13% in 2006, compared to $9 million or 20% in 2005. The gross margin percentage was higher in 2005 due to the significant amount of other energy market revenue received.

In 2006, NorthPoint earned $7 million in service revenue, which is unchanged from the prior year. Service revenue from SaskPower provided approximately 5% of NorthPoint's total revenue.

Expense

Electricity trading expense rose to $103 million in 2006 from $37 million in 2005. This increase was due to a 1,027 GWh increase in the volumes required to fulfill the increase in electricity sales, as well as a $5/MWh increase in the average purchase price of electricity. Administration expense also increased primarily due to higher salary and benefit costs associated with the increase in the number of employees.

Outlook

Despite strong results in 2006 and 2005, net income is expected to moderate to the $6 million level in 2007, and remain relatively constant over the next few years. This reflects an expected return to more stable market conditions in the short-term. These expectations are subject to significant variability as a result of weather, economic conditions and market conditions in other jurisdictions. NorthPoint continues to attempt to grow revenues by entering new markets, such as the New York Independent System Operator, the Southwest Power Pool and California markets.

OFF-BALANCE SHEET ARRANGEMENTS

The Canadian Institute of Chartered Accountants (CICA) recommends that corporations disclose all off-balance sheet arrangements if they have or are likely to have a material current or future effect on the financial condition of the corporation. SaskPower has the following off-balance sheet arrangements that are considered to be significant.

A) Employees' future benefits

The Corporation provides pension plans for all eligible employees, including a defined benefit pension plan, defined contribution pension plan and other severance plans. Under current Canadian GAAP, the funded status (the difference between the plan assets and accrued benefit obligations) of the Corporation's defined benefit pension plan is not fully recognized on the balance sheet as at December 31, 2006. A reconciliation between the funded status and the value of the Plan recorded on the balance sheet is disclosed in [*Note 18(a)*]. In addition, using a measurement date up to three months prior to the balance sheet date is permitted. The measurement date of the latest actuarial valuation used to determine the plan assets and obligations of the various plans was September 30, 2006.

The funded status of the defined benefit pension plan and the present value of the accrued benefits under the other benefit plans are disclosed in *Note 18* to the consolidated financial statements.

B) Energy performance contracts

Energy performance contracts are packages that provide energy savings to certain large commercial customers of SaskPower. The packages are comprehensive facility improvement programs that normally include the installation of new energy efficient equipment, which is intended to pay for itself through energy savings. SaskPower guarantees these energy savings. These guarantees are offset by third party guarantees to SaskPower that ensure the energy savings will be realized.

SaskPower has not recorded an asset or liability in respect of these contracts, as the promised energy savings were being realized on all energy performance contracts as of December 31, 2006. In the event that the energy savings were not being realized, SaskPower would be liable to the customer for the guaranteed savings. A payable to the customer and a receivable from the third party that provided an offsetting guarantee to SaskPower would be recorded on the balance sheet.

The value of the guarantees is disclosed in *Note 14(d)* to the consolidated financial statements.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

SaskPower's significant accounting policies are described in *Note 2* to the consolidated financial statements. Some of these policies involve accounting estimates that require management to make particularly subjective or complex judgements about matters that are inherently uncertain. Different conditions or assumptions regarding the estimates could result in materially different results being reported. Management has discussed the development and selection of these critical accounting policies with the Corporation's Audit and Finance Committee and the external auditors.

The following section discusses the critical accounting estimates and assumptions that management has made and how they affect the amounts reported in the consolidated financial statements.

A) Depreciation

Property, plant and equipment represents 89% of total assets recognized on SaskPower's balance sheet. Included in property, plant and equipment are the generation, transmission, distribution and other assets of the Corporation. Due to the size of SaskPower's property, plant and equipment, changes in estimated depreciation rates can have a significant impact on income.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset. The estimated useful lives of the assets are based on formal depreciation studies that are performed every five years, with annual reviews for reasonableness. The estimated useful lives are determined based upon manufacturer's guidance on asset life, SaskPower's past experience with similar assets, industry averages and expectations about future events that could impact the life of the asset. A depreciation study was performed in 2006, the results of which will be applied prospectively beginning in 2007.

A one-year increase in the average estimated service life of each of the major asset categories of property, plant and equipment would result in a $12 million decrease to depreciation expense in the current year.

B) **Asset retirement obligations**

An asset retirement obligation is a legal obligation associated with the decommissioning of a long-lived asset. SaskPower recognizes asset retirement obligations in the period they are incurred if a reasonable estimate of fair value (net present value) can be determined. The Corporation recognizes asset retirement obligations to decommission coal, gas, cogeneration and wind generation facilities in the period in which the facility is commissioned. SaskPower has not recognized an obligation for the transmission, distribution and hydro generation assets as an estimate of their fair value cannot be determined. The Corporation expects to maintain and operate these assets indefinitely.

The fair value of the estimated asset retirement costs is recorded as a liability in other liabilities with an offsetting asset capitalized and included as part of property, plant and equipment. The asset retirement obligations are increased annually for the passage of time by calculating accretion (interest) on the liability. The accretion expense is calculated using an interest rate that equates to a risk-free interest rate adjusted for the credit standing of the Corporation and is included with depreciation expense. The offsetting capitalized asset retirement costs are depreciated over the estimated useful life of the related asset.

The calculations of fair value are based on detailed studies that take into account various assumptions regarding the anticipated future cash flows, including the method and timing of decommissioning and estimates of future inflation.

A 0.5% increase in the credit-adjusted risk-free rate would result in a $3 million decrease to the asset retirement obligation, a $1 million decrease to the asset retirement asset and have no material impact on depreciation expense in the current year.

C) **Employees' future benefits**

As explained in *Note 2n* and *Note 18* to the consolidated financial statements, the Corporation provides post-retirement benefits to employees, including a defined benefit pension plan (the Plan). Substantially closed to new members since 1977, the Plan provides benefits based on the average of the highest five years' annual pensionable earnings and years of service. At the discretion of the Lieutenant-Governor-in-Council, pensions may be increased annually up to the rate of increase in the Saskatchewan consumer price index (CPI). In 2006, the Government of Saskatchewan introduced legislation that would amend the Plan to provide annual benefit increases at a rate equal to 70% of the increase in the CPI.

The cost of pension benefits under the Plan are actuarially determined using the projected benefit method prorated on service. It reflects management's best estimates of future investment performance, wage and salary escalation, age at retirement and future pension indexing up to the rate of inflation. Market rates are used to measure the accrued benefit obligation and fair value to measure the pension Plan assets. The actual results over the short-term may differ greatly from the long-term assumptions. However, the use of long-term financial assumptions to calculate pension expense is considered appropriate due to the long-term financial commitment that a pension plan represents.

An independent actuary calculates defined benefit pension plan costs based on the long-term assumptions described above. In 2006, the actuary calculated a pension credit of $7 million compared to $2 million in 2005. This is a non-cash item that is included in operating, maintenance and administration expense on the income statement.

Changes in the long-term assumptions, including the anticipated return on Plan assets and the discount rates used in determining the benefit obligation and current period service costs, can have a significant impact on the pension costs of the Corporation.

The expected rate of return on Plan assets is based upon economic forecasts for the types of investments held by the Plan. The long-term rate of return on Plan assets remained at 6.5%, consistent with the prior year. The discount rate is based on the spot yield for high-grade, long-term Canadian corporate bonds. The discount rate remained at 5.25%, consistent with the prior year.

A 0.5% increase in both the expected long-term rate of return on Plan assets and the discount rate would result in a $3 million increase in the pension credit and a $3 million increase in the defined benefit asset recorded in the consolidated financial statements.

D) Unbilled revenue

Electric revenues are billed on a systematic basis over a monthly or quarterly basis for all SaskPower customer classes. At the end of each month, the Corporation makes an estimate of the electricity delivered to its customers since their last billing date. The estimated unbilled revenue is based on several factors including estimated consumption by customer class, applicable customer rates and the number of days between the last billing date and the end of the period. As at December 31, 2006, total Saskatchewan electricity sales of $1,269 million included $54 million of estimated unbilled revenue.

FUTURE ACCOUNTING POLICY CHANGES

Financial instruments

In 2005, CICA issued Section 1530, *Comprehensive Income*; Section 3251, *Equity*; Section 3855, *Financial Instruments – Recognition and Measurement*; and Section 3865, *Hedges*. SaskPower will adopt these standards effective January 1, 2007. The following are the impacts of implementing these new standards.

SaskPower will be required to measure certain derivative financial instruments at fair value and record this on the Corporation's statement of financial position. The change in the market value (gain or loss) of the derivatives will be recorded in net income unless the derivative is designated as a hedge. If the derivative is designated as a hedge, the gain or loss will be temporarily posted to a new financial statement — statement of comprehensive income. The gain or loss will be reclassified into net income in the period that the derivative instrument is settled.

The Corporation discontinued its use of hedge accounting on its natural gas derivatives on December 30, 2006. The unrealized gains or losses on the previously designated natural gas hedges will be recorded in accumulated other comprehensive income (loss) effective January 1, 2007, and will subsequently be reclassified to net income as the contracts mature. These natural gas contracts will all mature by December 31, 2009. Any future changes in the fair value of natural gas derivative instruments will be recognized directly in net income in the period of change.

In addition, upon adoption of the new standards, the long-term debt will be recorded at amortized cost. As such, the related debt premium and issue costs will be treated as part of the carrying value of the long-term debt and will be amortized using the effective interest rate method.

RISK MANAGEMENT

SaskPower's Board of Directors (Board) approves the risk management framework for the Corporation. The framework includes the risk exposure guidelines, tolerances and control structures within which management will conduct SaskPower's business. The Risk Management Committee, chaired by the President and CEO, is responsible for implementing the Board-approved policies and for directing and monitoring the development, implementation, conduct, control and reporting of SaskPower's risk management activities.

The following risk exposures are the major factors that could affect SaskPower's future results.

A) Operational risk

SaskPower's generation, transmission and distribution assets are subject to equipment failure, which may lead to outages. SaskPower completes regular maintenance and major upgrades to mitigate the risk of an outage. Additionally, a significant portion of SaskPower's labour force is unionized. SaskPower's operations may be disrupted in the event of a labour dispute. The Corporation is currently negotiating collective bargaining agreements with the International Brotherhood of Electrical Workers (IBEW), Local 2067, and the Communications, Energy and Paperworkers Union (CEP), Local 649.

Uncontrollable risks also may impact SaskPower's operations. As an example, low water levels may reduce the availability of hydroelectricity and severe storms may result in temporary outages.

SaskPower is also subject to risks such as an accidental loss of assets and business interruption. The Corporation utilizes two methods for dealing with these risks. Loss prevention methods are applied in instances where the risks can be controlled, eliminated or transferred. Loss prevention involves engineering, administrative and operating staff working to identify risks and the development of loss prevention solutions. Secondly, SaskPower purchases insurance to minimize its exposures to certain risks. SaskPower primarily seeks insurance for catastrophic events only and the deductibles on the major insurance types are set so that premiums are maintained at reasonable levels.

B) Commodity price risk

SaskPower primarily has an exposure to fluctuations in the quantities and prices of commodities used in the generation of electricity and an exposure to variability in the market prices of electricity.

SaskPower has minimized the coal price exposure by securing long-term supply contracts for its coal-fired generation units. The contracts in place expire no earlier than 2009.

Short-term natural gas prices are very volatile, underscoring the need for an effective risk management plan. SaskPower's natural gas price risk management plan targets a balanced approach to managing costs at a reasonable level through the use of physical purchases, storage and derivative financial instruments. Objectives of the plan are to reduce the risk related to natural gas price volatility while maintaining some upside potential if prices decline. As at December 31, 2006, SaskPower had hedged 40% of the Corporation's anticipated natural gas exposure for 2007, 24% for 2008 and 16% for 2009 with derivative financial instruments.

Additionally, SaskPower's electricity trading activities are exposed to fluctuations in electricity prices. The Board has approved limits on the maximum size, type and level of risk of a transaction. As at December 31, 2006, SaskPower had no significant open positions.

C) Foreign exchange rate risk

SaskPower has exposure to various currencies due to electricity trading activities and the acquisition of goods and services from foreign suppliers. The Corporation manages the exposures using a variety of hedging instruments, including foreign currency forward and option contracts. Hedging activities are conducted in accordance with Board-approved guidelines and are regularly reported to the Risk Management Committee.

D) Interest rate risk

SaskPower is exposed to changes in interest rates on planned borrowings. Additionally, interest rate changes may influence the performance and cost of SaskPower's defined benefit pension plan. As at December 31, 2006, 100% of the Corporation's debt was at fixed rates.

E) Credit risk

Credit risk exposure is the risk that a counterparty will fail to perform its present or future obligations, resulting in a loss to the Corporation. As an example, credit risk exposure may be quantified as the cost of replacing a physical or derivative financial instrument or the loss incurred when a counterparty fails to make payment on billed invoices.

Credit risk is managed by adhering to approved credit policies established by management and approved by the Board. Ongoing monitoring of all material counterparties is in place to ensure credit limits are reduced or eliminated as market events occur. As at December 31, 2006, all credit exposures were within the limits stated in the approved guidelines.

F) Changing environmental regulations

SaskPower is working closely with provincial and federal authorities to monitor and engage in dialogue concerning emerging environmental regulations which would affect SaskPower's operations. While there is considerable uncertainty regarding the details of these emerging changes, SaskPower anticipates that a general reduction in air emissions and greater care of affected habitats will be required over the next decade. These changes will increase the cost of producing and delivering electricity.

Report of management

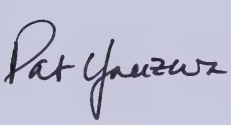
The consolidated financial statements of Saskatchewan Power Corporation (SaskPower) are the responsibility of management and have been prepared in accordance with Canadian generally accepted accounting principles, applied on a basis consistent with that of the preceding year. The preparation of financial statements necessarily involves the use of estimates based on management's best judgment, particularly when transactions affecting the current period cannot be finalized with certainty until future periods. In management's opinion, the consolidated financial statements have been properly prepared within the framework of selected accounting policies summarized in the consolidated financial statements and incorporate, within reasonable limits of materiality, information available up to February 9, 2007. The financial information presented in the management's discussion and analysis (MD&A) and elsewhere in this report is consistent with that in the consolidated financial statements.

Management maintains appropriate systems of internal control which provide reasonable assurance that the Corporation's assets are safeguarded and appropriately accounted for, that financial records are relevant, reliable and accurate and that transactions are executed in accordance with management's authorization. This system includes corporate-wide policies and procedures, as well as the appropriate delegation of authority and segregation of responsibilities within the organization. An internal audit function independently evaluates the effectiveness of these controls on an ongoing basis and reports its findings to management and the Audit and Finance Committee of the Board of Directors.

The Board of Directors, through the Audit and Finance Committee, is responsible for ensuring that management fulfills its responsibility for financial reporting and internal control. The Audit and Finance Committee consists entirely of outside Directors. At regular meetings the Committee reviews audit, internal control and financial reporting matters with management, the internal auditors and the external auditors to satisfy itself that each is properly discharging its responsibilities. The MD&A, consolidated financial statements and the external auditors' report have been reviewed by the Audit and Finance Committee and have been approved by the Board of Directors. The internal and external auditors have full and open access to the Audit and Finance Committee, with and without the presence of management.

The consolidated financial statements have been examined by Deloitte & Touche LLP, Chartered Accountants, as appointed by the Lieutenant-Governor-in-Council and approved by the Crown Investments Corporation of Saskatchewan. The external auditors' responsibility is to express their opinion on whether the consolidated financial statements are fairly presented in accordance with Canadian generally accepted accounting principles. The auditors' report, which follows, outlines the scope of their examination and sets forth their opinion.

On behalf of management,



Pat Youzwa
President and Chief Executive Officer
February 9, 2007

W. Davern Jones
Vice-president and Chief Financial Officer

Auditors' report

To the Members of the Legislative Assembly of Saskatchewan

We have audited the consolidated statement of financial position of Saskatchewan Power Corporation as at December 31, 2006, and the consolidated statements of income and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2006, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants
Regina, Saskatchewan
February 9, 2007

Consolidated statement of income and retained earnings

(in millions)

For the year ended December 31	2006	2005
Revenue		
Electric sales		
Saskatchewan	**$ 1,269**	$ 1,181
Export	**29**	68
Electricity trading	**118**	46
Other	**40**	31
Total revenue	**1,456**	1,326
Expense		
Fuel and purchased power *(Note 3)*	**498**	454
Electricity trading costs	**103**	37
Operating, maintenance and administration	**360**	336
Depreciation *(Note 4)*	**207**	189
Finance charges *(Note 5)*	**161**	147
Taxes *(Note 6)*	**34**	32
Total expense	**1,363**	1,195
Net income	**93**	131
Retained earnings, beginning of year	**776**	730
Dividends	**(61)**	(85)
Retained earnings, end of year	**$ 808**	$ 776

See accompanying notes

Consolidated statement of financial position

(in millions)

As at December 31	2006	2005
Assets		
Current assets		
Cash and cash equivalents *(Note 7)*	$ 20	$ 65
Accounts receivable and unbilled revenue	186	161
Inventory	139	139
Derivative financial instruments asset *(Note 13)*	9	–
	354	365
Property, plant and equipment *(Note 8)*		
Property, plant and equipment	6,487	5,950
Less: accumulated depreciation	2,887	2,703
	3,600	3,247
Construction in progress	95	369
	3,695	3,616
Other assets *(Note 9)*	114	120
Total assets	$ 4,163	$ 4,101
Liabilities and equity		
Current liabilities		
Accounts payable and accrued liabilities	$ 160	$ 166
Accrued interest	55	54
Derivative financial instruments liability *(Note 13)*	21	–
Current portion of long-term debt *(Note 10)*	89	73
Dividend payable	10	22
	335	315
Long-term debt *(Note 10)*	2,225	2,224
Other liabilities *(Note 11)*	135	126
Total liabilities	2,695	2,665
Equity		
Equity advances *(Note 12)*	660	660
Retained earnings	808	776
Total equity	1,468	1,436
Total liabilities and equity	$ 4,163	$ 4,101

Commitments and contingencies *(Note 14)*

See accompanying notes

On behalf of the Board:

Patricia A.G. Quaroni, LLB
Chair

Lyn Kristoff, FCA
Director

Consolidated statement of cash flows

(in millions)

For the year ended December 31	2006	2005
Operating activities		
Net income	$ 93	$ 131
Add (deduct) items not involving cash:		
Depreciation *(Note 4)*	207	189
Defined benefit pension plan credit *[Note 18(b)]*	(7)	(2)
Sinking fund earnings *(Note 5)*	(10)	(13)
Equity investment income *(Note 9)*	(9)	(3)
Other	4	8
Operating cash flow	278	310
Net change in non-cash working capital *(Note 15)*	(23)	(13)
Cash provided by operating activities	255	297
Investing activities		
Property, plant and equipment	(253)	(437)
Interest capitalized *(Note 5)*	(10)	(20)
Equity investment distribution *(Note 9)*	5	–
Cash used in investing activities	(258)	(457)
Decrease in cash before financing activities	(3)	(160)
Financing activities		
Advances from the Province of Saskatchewan *(Note 10)*		
Canadian dollar denominated debt – proceeds	100	300
– repayment	(49)	(72)
Non-recourse debt – repayment	(3)	(3)
Sinking fund installments	(22)	(19)
Debt premium (discount)	5	(3)
Defined benefit pension plan contribution *[Note 18(a)]*	–	(5)
Dividends paid	(73)	(77)
Cash (used in) provided by financing activities	(42)	121
Decrease in cash	(45)	(39)
Cash and cash equivalents, beginning of year	65	104
Cash and cash equivalents, end of year	$ 20	$ 65
Supplemental information:		
Cash paid for interest	$ 187	$ 179
Cash paid for grants-in-lieu of taxes	16	15
Cash paid for capital tax	19	16

See accompanying notes

As at December 31, 2006

1. Status of the Corporation

Saskatchewan Power Corporation (SaskPower; the Corporation), a provincially-owned Crown corporation, generates, purchases, transmits, distributes and sells electricity and related products and services. Founded as the Saskatchewan Power Commission in 1929, SaskPower was set up in 1949 and operates primarily under the mandate and authority of *The Power Corporation Act.*

By virtue of *The Crown Corporations Act, 1993*, SaskPower has been designated a subsidiary of Crown Investments Corporation of Saskatchewan (CIC), a provincial Crown corporation. Accordingly, the financial results of the Corporation are included in the consolidated financial statements of CIC. As a provincial Crown corporation, the Corporation is not subject to federal income tax, provincial income tax or federal large corporations tax.

2. Summary of significant accounting policies

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP). The following accounting policies are considered significant:

(a) Use of estimates

The timely preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Significant areas requiring the use of management estimates include electricity revenues not yet billed; carrying amounts of property, plant and equipment, underlying estimates of useful lives and related depreciation; carrying amounts of asset retirement obligations and underlying estimates of future cash flows; and carrying amounts of deferred pension costs and underlying actuarial assumptions. Actual results could differ from those estimates, which may impact the actual results reported in future periods.

(b) Consolidation and investments

These consolidated financial statements include the accounts of the Corporation and its wholly-owned subsidiaries, NorthPoint Energy Solutions Inc. (NorthPoint), Power Greenhouses Inc. (Shand Greenhouse), and SaskPower International Inc. (SaskPower International). All inter-company transactions have been eliminated on consolidation. Separate audited financial statements are prepared for each subsidiary.

SaskPower accounts for its joint venture interests using the proportionate consolidation method. The Corporation accounts for investments over which it exerts significant influence using the equity method. The investment is initially recorded at cost and the carrying value adjusted thereafter to include the Corporation's proportionate share of post acquisition earnings of the investment and cash distributions.

(c) Revenue recognition

Electricity pricing in Saskatchewan is subject to review by the Saskatchewan Rate Review Panel with final approval by cabinet. Electrical revenue is recognized upon delivery to the customer and includes an estimate of electrical deliveries not yet billed at year-end. Physical electricity trading revenues are reported on a gross basis upon delivery of electricity to the customers.

(d) Cash and cash equivalents

Cash and cash equivalents includes short-term investments that have a maturity date of 90 days or less from the date of acquisition. These investments are carried at cost which approximates market value *(Note 7)*.

(e) Inventory

Maintenance materials, supplies and fuel inventory are recorded at the lower of average cost and net realizable value. Materials are charged to inventory when purchased and then expensed or capitalized when installed.

(f) Property, plant and equipment

Property, plant and equipment is recorded at original cost and includes material, direct labour, overhead costs and interest during construction. The Corporation capitalizes interest based on the weighted average cost of long-term borrowings.

Costs are capitalized provided there is reasonable certainty they will provide benefits into the future. Significant renewals and enhancements to existing assets are capitalized only if the service life of the asset is increased; physical output, service capacity or quality is improved above original design standards; or operating costs are reduced by a substantial and quantifiable amount. Maintenance and repair costs are expensed as incurred.

Contributions in aid of construction are funds received from certain customers toward the costs of service extensions. Contributions are netted against property, plant and equipment and are amortized over the estimated service life of the related asset.

Assets under construction are recorded as construction in progress until they are operational and available for use, at which time they are transferred to property, plant and equipment *(Note 8)*.

(g) Depreciation

Depreciation is calculated on a straight-line basis over the estimated service life of the related asset. The estimated useful life of property, plant and equipment is based on current facts, past experience and the potential for technical obsolescence. Estimated service lives of the assets are periodically reviewed and any changes are applied prospectively.

The average estimated service life of new assets for the major categories of property, plant and equipment are:

Asset	Average service life in years
Generation:	
Coal	30
Natural gas	24
Hydro	50
Cogeneration	30
Wind	20
Transmission	35 – 50
Distribution	35 – 40
Other	3 – 50

Depletion on long-term coal properties is calculated using the unit of production method based on estimated proven reserves. Depreciation expense also includes the gain or loss on both the complete and partial disposal of assets and accretion (interest) expense on asset retirement obligations *(Note 4)*.

(h) Asset impairment

The Corporation evaluates its property, plant and equipment for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be fully recoverable. Factors, which could indicate an impairment exists, include significant changes in the Corporation's strategy or underperformance of assets relative to projected future operating results. An impairment is recognized when the carrying amount of an asset exceeds the undiscounted projected future net cash flows expected from its use and disposal. It is measured as the amount by which the carrying amount of the asset exceeds its fair value. As at December 31, 2006, the Corporation determined that there was no impairment of value to its long-lived assets and therefore no write down was required.

(i) Asset retirement obligations

An asset retirement obligation is a legal obligation associated with the decommissioning of a long-lived asset. The Corporation recognizes asset retirement obligations in the period they are incurred if a reasonable estimate of fair value (net present value) can be determined. The Corporation recognizes asset retirement obligations to decommission coal, gas, cogeneration and wind generation facilities in the period in which the facility is commissioned. The Corporation has not recognized an obligation for its transmission, distribution and hydro generation assets, as an estimate of their fair value cannot be determined. The Corporation expects to maintain and operate these assets indefinitely.

The fair value of the estimated asset retirement costs is recorded as a liability in other liabilities with an offsetting asset capitalized and included as part of property, plant and equipment. The asset retirement obligations are increased annually for the passage of time by calculating accretion (interest) on the liability. The accretion expense is calculated using an interest rate that equates to a risk-free interest rate adjusted for the credit standing of the Corporation and is included with depreciation expense. The offsetting capitalized asset retirement costs are depreciated over the estimated useful life of the related asset.

The calculations of fair value are based on detailed studies that take into account various assumptions regarding the anticipated future cash flows, including the method and timing of decommissioning and estimates of future inflation. Asset retirement obligations are periodically reviewed and any changes are recognized as an increase or decrease in the carrying amount of the liability for the asset retirement obligation and the related asset retirement cost *(Notes 4 and 11)*.

(j) Environmental remediation liabilities

Environmental remediation liabilities are accrued when the occurrence of an environmental expenditure, related to present or past activities of the Corporation, is considered probable and the costs of remedial activities can be reasonably estimated. These estimates include costs for investigations, remediation, operations, maintenance and monitoring at identified sites. These liabilities are based on management's best estimate considering current environmental laws and regulations and the estimates have been recorded at undiscounted amounts. The Corporation reviews its estimates of future environmental expenditures on an ongoing basis *(Note 11)*.

(k) Derivative financial instruments

Derivative financial instruments are utilized by the Corporation to reduce the exposure to fluctuations in natural gas prices. The Corporation utilizes hedge accounting to record gains and losses relating to derivatives that are designated as hedges. Under hedge accounting, gains and losses are deferred and recognized in the same period and financial statement category as the related items hedged.

In order to qualify for hedge accounting, the derivatives must be designated by management as being a hedge and must be effective both at inception and on an ongoing basis. The Corporation designates derivatives as being a hedge through the formal documentation of all relationships between hedging instruments and hedged items, as well as by its risk management policy and strategy for undertaking various hedge transactions. This process includes linking all derivatives to specific assets and liabilities on the balance sheet or to specific firm commitments or anticipated transactions.

Management ensures the hedge effectiveness for natural gas derivatives is achieved by assessing whether the derivatives that are used in the gas hedging transactions are highly effective in offsetting changes in the cash flows of the natural gas purchases.

On December 30, 2006, the Corporation discontinued its use of hedge accounting on its natural gas derivatives. As a result, the unrealized gains and losses on these natural gas derivatives — previously not recorded on the balance sheet as a result of applying hedge accounting — are now recorded in current assets and current liabilities as derivative financial instruments asset and liability respectively. Any future changes in the fair value of these natural gas derivative instruments will be recognized directly in net income in the period of change *(Note 13)*.

(l) Foreign currency translation

Revenues and expenditures resulting from transactions in foreign currencies are translated into Canadian dollars at the exchange rates in effect at the transaction date. Monetary assets and liabilities denominated in a foreign currency are translated using the exchange rate in effect on the balance sheet date. Any resulting foreign currency translation gains and losses are included in the consolidated statement of income and retained earnings in the current period.

(m) Debt premium and issue costs

Debt premium and issue costs are amortized on a straight-line basis over the term of the respective debt issue and are included in other assets or liabilities as appropriate *(Notes 9 and 11)*.

(n) Employees' future benefits

The Corporation provides pension plans for all eligible employees, including a defined benefit pension plan and a defined contribution pension plan. The defined benefit pension plan (the Plan) is governed by *The Superannuation (Supplementary Provisions) Act* and *Regulations*, as well as *The Power Corporation Superannuation Act*. The defined contribution pension plan is governed by *The Public Employees Pension Plan Act* and *Regulations* and certain sections of *The Superannuation (Supplementary Provisions) Act* and *Regulations*.

Under the defined contribution pension plan, the Corporation's obligations are limited to contributions made for current service. When made, these contributions are charged to operating, maintenance and administration expense.

The defined benefit pension plan, substantially closed to new members since 1977, provides benefits based on the average of the highest five years' annual pensionable earnings and years of service. At the discretion of the Lieutenant-Governor-in-Council, pensions may be increased annually up to the rate of increase in the Saskatchewan consumer price index (CPI). In 2006, the Government of Saskatchewan introduced legislation that would amend the Plan to provide annual benefit increases at a rate equal to 70% of the increase in the CPI.

The cost of pension benefits under the Plan is actuarially determined using the projected benefit method prorated on service. It reflects management's best estimates of future investment performance, wage and salary escalation, age at retirement and future pension indexing up to the rate of inflation. Market rates are used to measure the accrued benefit obligation and fair value to measure the pension Plan assets. The transitional asset that resulted from the adoption of the Canadian Institute of Chartered Accountants (CICA) Handbook Section 3461 and past service costs from amendments to the Plan are being amortized over the average remaining service life of the employees in the Plan. The excess of the net actuarial gain (loss) over 10% of the greater of the benefit obligation and the fair value of Plan assets is amortized over the average remaining service life of the employees in the Plan.

The Corporation provides severance plans for all eligible employees, including defined contribution and defined benefit severance plans. Under the defined contribution severance plan, SaskPower's obligations are limited to contributions made for current service. The cost of severance benefits under the defined benefit severance plans is determined using the projected benefit method prorated on service and reflects management's best estimates of future wages, number of eligible employees and average age at retirement. The estimated transitional obligation is being amortized over the average remaining service life of the employees in the defined benefit severance plans.

The Corporation provides a supplementary superannuation plan for certain management employees who elect to forego their entitlement to banked days off. SaskPower's current period expense is limited to yearly notional contributions to the plan based upon the employee's salary and an amount allocated for interest on the employee's plan balance.

The Corporation also provides lifetime superannuation and bridge allowances to employees who chose to retire under various early retirement options. The cost of these benefits is actuarially determined by calculating the present value of all future benefit entitlements *(Note 18)*.

(o) Future accounting policy changes

In 2005, CICA issued Section 1530, *Comprehensive Income*; Section 3251, *Equity*; Section 3855, *Financial Instruments – Recognition and Measurement;* and Section 3865, *Hedges*. The Corporation will adopt these standards effective January 1, 2007. The impact of implementing these new standards is as follows.

The Corporation will be required to measure certain derivative financial instruments at fair value and record this value on the consolidated statement of financial position. The change in the market value (gain or loss) of the derivatives will be recorded in net income unless the derivative is designated as a hedge. If the derivative is designated as a hedge, the gain or loss will be temporarily posted to a new financial statement – statement of comprehensive income. The gain or loss will be reclassified into net income in the period that the derivative instrument is settled.

The Corporation discontinued its use of hedge accounting on its natural gas derivatives on December 30, 2006. The unrealized gains and losses on the previously designated natural gas hedges will be recorded in accumulated other comprehensive income (loss) effective January 1, 2007, and will subsequently be

reclassified to net income as the contracts mature. These natural gas contracts will all mature by December 31, 2009. Any future changes in the fair value of natural gas derivative instruments will be recognized directly in net income in the period of change.

In addition, upon adoption of the new standards the long-term debt will be recorded at amortized cost. As such, the related debt premium and issue costs will be treated as part of the carrying value of the long-term debt and will be amortized using the effective interest rate method.

3. Fuel and purchased power (in millions)

	2006	2005
Coal-fired generation	$ 167	$ 157
Natural gas generation	91	69
Hydro generation	14	14
Purchased power	200	192
Imports	26	22
	$ 498	$ 454

Purchased power includes the cost of electricity obtained through power purchase agreements with the Cory Cogeneration Station, Meridian Cogeneration Station and the SunBridge Wind Power Project, all of which are located within Saskatchewan. Imports represent electricity purchased from suppliers that produce power outside Saskatchewan.

4. Depreciation (in millions)

	2006	2005
Depreciation expense	$ 210	$ 197
Accretion expense	2	2
Environmental expense *(Note 9)*	6	–
Amortization of contributions in aid of construction	(11)	(10)
	$ 207	$ 189

5. Finance charges (in millions)

	2006	2005
Interest on long-term debt	$ 185	$ 184
Other interest and charges	1	1
Less: interest capitalized	(10)	(20)
sinking fund earnings	(10)	(13)
interest income	(5)	(5)
	$ 161	$ 147

6. Taxes (in millions)

	2006	2005
Grants-in-lieu of taxes to 13 cities	$ 16	$ 14
Saskatchewan corporate capital tax	18	17
Other	–	1
	$ 34	$ 32

In addition to the above, SaskPower collected a municipal surcharge, between 5% and 10% of residential electricity revenues, on behalf of 416 Saskatchewan cities, towns and villages from customers and remitted $40 (2005 - $37) to local governments pursuant to Section 36 of *The Power Corporation Act*.

7. Cash and cash equivalents (in millions)

	2006	2005
(Overdraft) cash	$ (8)	$ 3
Short-term investments	28	62
	$ 20	$ 65

Short-term investments earned interest at a weighted average rate of 4.08% (2005 - 2.65%) per annum.

8. Property, plant and equipment (in millions)

	2006				2005			
	Cost	Accumulated depreciation	Construction in progress	Net book value	Cost	Accumulated depreciation	Construction in progress	Net book value
Generation	$ 3,331	$ 1,527	$ 42	$ 1,846	$ 2,951	$ 1,427	$ 301	$ 1,825
Cogeneration	138	18	–	120	138	14	–	124
Transmission	660	286	20	394	635	271	22	386
Distribution	1,843	754	12	1,101	1,733	706	30	1,057
Other	515	302	21	234	493	285	16	224
	$ 6,487	$ 2,887	$ 95	$ 3,695	$ 5,950	$ 2,703	$ 369	$ 3,616

Included in the above amounts are unamortized reconstruction charges and customer contributions of $259 (2005 - $249).

9. Other assets (in millions)

	2006	2005
MRM Cogeneration Station	$ 32	$ 28
Deferred assets	26	30
Defined benefit pension asset *[Note 18(a)]*	36	29
Escrow fund deposits	–	16
Net deferred natural gas hedging loss *(Note 13)*	12	–
Prepaid expense	6	9
Carbon offsets	–	6
Debt issue costs	2	2
	$ 114	$ 120

MRM Cogeneration Station (in millions)

The Corporation, through its subsidiary SaskPower International, has a 30% ownership interest in the MRM Cogeneration Station. The 170-megawatt (MW) natural gas-fired cogeneration facility is located at the Athabasca Oil Sands Project's Muskeg River Mine, north of Fort McMurray, Alberta. The cogeneration station commenced commercial operations in January 2003. A reconciliation between the opening and closing equity investment balance is provided below:

	2006	2005
Equity investment, beginning of year	$ 28	$ 25
Equity investment income	9	3
Equity investment distribution	(5)	–
Equity investment, end of year	$ 32	$ 28

Deferred assets
Deferred assets include payments made in accordance with long-term coal supply agreements. The Corporation is amortizing the deferred assets over the remaining life of the long-term coal supply agreements.

Defined benefit pension asset
This represents the surplus in the defined benefit pension plan based on long-term assumptions. It does not represent cash or investments held by the Corporation outside of the plan *[Note 18(a)]*.

Escrow fund deposits
These deposits relate to the development of the 150-MW Centennial Wind Power Facility. As part of the project agreement, payments were made in advance and were held in an escrow fund account. These deposits were released upon achievement of certain project milestones.

Net deferred natural gas hedging loss
This reflects the cumulative mark-to-market transitional adjustment recorded upon management's decision to discontinue the use of hedge accounting on its designated natural gas derivatives on December 30, 2006. Effective January 1, 2007, upon adoption of the new CICA financial instruments accounting standards, this amount will be reflected as accumulated other comprehensive income (loss) in the equity section of the consolidated statement of financial position *[Note 2(o)]*.

Prepaid expense
This includes prepaid amounts for insurance and licenses. The prepaid amount is amortized on a straight-line basis over the period of benefit.

Carbon offsets
These represent payments made to the Province of Saskatchewan for the rights to greenhouse gas (GHG) reduction credits that result from the sequestration of GHG through defined forest management activities taken by the province. The carbon offsets have been written down to nil in 2006 as their future value is considered uncertain. It is management's expectation that the GHG sequestration activities will pre-date the qualifying period of any future federal carbon offset system. This write down has been recorded as an environmental expense in depreciation on the consolidated statement of income and retained earnings *(Note 4)*.

Debt issue costs
The issue costs are related to the non-recourse long-term debt. The costs are amortized on a straight-line basis over the term of the respective debt *[Note 2(m)]*.

10. Long-term debt (in millions)

SaskPower's gross debt consists of $2,425 of recourse debt and $90 of non-recourse debt. The recourse debt is comprised of advances from the Province of Saskatchewan (General Revenue Fund), substantially all of which have annual sinking fund requirements. The non-recourse debt is used to finance the Cory Cogeneration Station. Under the terms of this debt, lenders have recourse limited to the Station's assets.

Long-term debt repayment schedule and details of debt

	2006		2005	
Years to maturity	Principal outstanding ($)	Weighted average interest rate (%)	Principal outstanding ($)	Weighted average interest rate (%)
Recourse debt – advances from the Province of Saskatchewan				
1-5 years	$ 403	8.42	$ 452	8.60
6-10 years	97	7.81	97	7.81
11-15 years	129	9.97	129	9.97
16-20 years	596	9.17	596	9.17
26-30 years	800	5.98	800	5.98
31-35 years	400	5.00	300	5.00
Recourse debt	2,425	7.29	2,374	7.45
Non-recourse debt				
1-20 years	90	7.51	93	7.40
Non-recourse debt	90		93	
Gross long-term debt	2,515		2,467	
Less: sinking fund balances	(201)		(170)	
Long-term debt, net of sinking funds	2,314		2,297	
Less current portion of long-term debt:				
Long-term debt due within one year	(66)		(52)	
Sinking fund installments due within one year	(23)		(21)	
	(89)		(73)	
Long-term debt	$ 2,225		$ 2,224	

Recourse debt – advances from the Province of Saskatchewan (in millions)

Date of issue	Date of maturity	Interest rate (%)	Outstanding amount
April 10, 1987, to July 10, 1987	April 10, 2007, to July 10, 2007	9.12 to 9.88	$ 63
March 3, 1988, to December 1, 1989	March 3, 2008, to December 1, 2009	9.15 to 10.31	77
March 15, 1993	March 15, 2008	7.70	263
July 20, 1993	July 15, 2013	7.81	97
December 20, 1990	December 15, 2020	9.97	129
February 4, 1992	February 4, 2022	9.60	240
July 21, 1992	July 15, 2022	8.94	256
May 30, 1995	May 30, 2025	8.75	100
August 8, 2001	September 5, 2031	6.40	200
January 15, 2003	September 5, 2031	6.40	100
May 12, 2003	September 5, 2033	5.80	100
January 14, 2004	September 5, 2033	5.80	200
October 5, 2004	September 5, 2035	5.60	200
February 15, 2005	March 5, 2037	5.00	150
May 6, 2005	March 5, 2037	5.00	150
February 24, 2006	March 5, 2037	5.00	100
			$ 2,425

Non-recourse debt (in millions)

Date of issue	Date of maturity	Interest rate (%)	Outstanding amount
April 26, 2001	March 31, 2007, to December 31, 2025	7.59	$ 46
April 26, 2001	March 31, 2007, to June 30, 2026	7.60	40
October 4, 2002	March 31, 2007, to December 31, 2011	B.A.[1]+ margin	4
			$ 90

1. A Banker's Acceptance is an instrument that is created by a non-financial firm and accepted and guaranteed by the bank. This rate is based on the average rates from eight Canadian banks with the high and low rates omitted from the average. The margin ranges from 1.0% to 1.375%.

As at December 31, 2006, scheduled debt retirement requirements for the next five years are as follows (in millions):

	2007	2008	2009	2010	2011
Recourse debt	$ 63	$ 337	$ 3	$ –	$ –
Non-recourse debt	3	3	4	4	4
	$ 66	$ 340	$ 7	$ 4	$ 4

Sinking funds (in millions)

Under conditions attached to certain advances from the Province of Saskatchewan, the Corporation is required to pay annually into sinking funds administered by Saskatchewan Department of Finance, amounts at least equal to 1% of certain debt outstanding. As at December 31, 2006, scheduled sinking fund installments for the next five years are as follows:

	2007	2008	2009	2010	2011
Sinking fund annual contribution	$ 23	$ 23	$ 20	$ 20	$ 20

11. Other liabilities (in millions)

	2006	2005
Asset retirement obligations	$ 32	$ 31
Environmental remediation liabilities	54	54
Other benefit plans *(Note 18)*	38	34
Debt premium	11	7
	$ 135	$ 126

Asset retirement obligations (in millions)
A reconciliation between the opening and closing asset retirement obligations balance is provided below:

	2006	2005
Asset retirement obligations, beginning of year	$ 31	$ 29
Liabilities incurred in the period	1	–
Liabilities removed in the period	(2)	–
Accretion expense	2	2
Asset retirement obligations, end of year	$ 32	$ 31

SaskPower estimates the undiscounted amount of cash flows required to settle the asset retirement obligations is approximately $128, which will be incurred between 2007 and 2045. The majority of these costs will be incurred between 2027 and 2036. Credit-adjusted risk-free rates between 5.25% and 6.04% were used to calculate the carrying values of the asset retirement obligations. No funds have been set aside by the Corporation to settle the asset retirement obligations.

Environmental remediation liabilities
Environmental remediation liabilities represent expected environmental expenditures related to present or past activities of the Corporation.

Other benefit plans
Other benefit plans include the liability for a defined benefit and defined contribution severance plan, a supplementary superannuation plan and various early retirement plans.

Debt premium
The premium is related to the Corporation's recourse long-term debt. The premium is amortized on a straight-line basis over the term of the respective debt *[Note 2(m)]*.

12. Equity advances (in millions)

The Corporation does not have share capital. However, SaskPower has received advances from CIC to form its equity capitalization. The advances reflect an equity investment in the Corporation by CIC.

13. Financial risk management (in millions)

By virtue of its operations, the Corporation is exposed to changes in the price of natural gas, interest rates and the United States (U.S.)/Canadian dollar exchange rate. SaskPower utilizes a number of derivative financial instruments to manage these exposures. The Corporation mitigates risk associated with these derivative financial instruments through Board-approved policies, limits on use and amount of exposure, internal monitoring and compliance reporting to senior management and the Board.

Commodity price risk
The Corporation is exposed to natural gas price risk through gas purchased for its natural gas-fired power plants and through certain power purchase agreements which have a cost component based on the price of natural gas. As at December 31, 2006, the Corporation had entered into natural gas contracts to hedge approximately 40% of its estimated natural gas exposures for 2007, 24% for 2008 and 16% for 2009.

The Corporation is also exposed to electricity price risk on its electricity trading activities. Electricity trading risks are managed through limits on the size and duration of transactions and open positions.

Interest rate risk
The Corporation is exposed to interest rate risk on planned borrowings, however this risk is considered low. As a result, the Corporation had no financial contracts in place to offset interest rate risk as of December 31, 2006.

Foreign exchange risk
The Corporation faces exposure to the U.S./Canadian dollar exchange rate primarily through the sale of electricity to customers in the U.S. as well as from the purchase of goods and services that are payable in U.S. dollars. The Corporation may utilize financial instruments to manage this risk. However, the risk is not considered significant.

Credit risk
Credit risk is the risk that one party to a transaction will fail to discharge an obligation and cause the other party to incur a financial loss. Concentrations of credit risk relate to groups of customers or counterparties that have similar economic or industry characteristics that cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions.

SaskPower's credit risk relates to customer accounts receivable and unbilled revenue, short-term investments, and counterparties to financial hedges and commodity transactions. Customer accounts receivable and unbilled revenue is diversified among many residential, farm and commercial customers primarily throughout Saskatchewan. In addition, the Corporation maintains Board-approved credit policies and limits in respect to short-term investments and counterparties.

Derivative financial instruments
The fair value of the Corporation's derivative financial instruments reflects market estimates of the amount that the Corporation would pay or receive to terminate contracts at the end of the year. They are not a result of market transactions. The estimated fair value of natural gas derivative option instruments is based on estimates from third-party brokers or dealers. The estimated fair value of natural gas swap instruments is based on internal models. Changes in assumptions, economic conditions and other factors could cause significant changes in the fair value estimates.

The following summarizes the carrying amounts, fair values and unrecognized gains or losses on the Corporation's derivative financial instruments at year-end (in millions):

At December 31	2006			2005		
	Asset (liability)		Unrecognized	Asset (liability)		Unrecognized
Natural gas contracts	Carrying amount	Fair value	mark-to-market gain (loss)	Carrying amount	Fair value	mark-to-market gain (loss)
Derivative financial instruments asset	$ 9	$ 9	$ n/a[1]	$ –	$ 28	$ 28
Derivative financial instruments liability	(21)	(21)	n/a[1]	–	(6)	(6)
	$ (12)	$ (12)	$ n/a[1]	$ –	$ 22	$ 22

1. Not applicable (n/a) as the Corporation discontinued the use of hedge accounting on its natural gas contracts on December 30, 2006.

In 2006, the mark-to-market gains and losses have been recorded and are presented separately as derivative financial instruments asset and liability respectively on the consolidated statement of financial position *(Note 9)*.

Other financial instruments

The following is a comparison of the balance sheet carrying amounts and fair values of long-term debt and sinking funds at year-end (in millions):

At December 31	2006		2005	
	Asset (liability)		Asset (liability)	
	Carrying amount	Fair value	Carrying amount	Fair value
Recourse debt	$ (2,425)	$ (3,058)	$ (2,374)	$ (3,059)
Non-recourse debt	(90)	(102)	(93)	(106)
Sinking funds	201	206	170	174

Fair values are determined as follows:

(a) Long-term debt instruments are valued at year-end market prices for the underlying debt issues or, when unavailable, for similar instruments;

(b) Sinking funds are valued at the closing year-end unit price; and

(c) Other financial instruments — including cash and cash equivalents, accounts receivable and unbilled revenue, accounts payable and accrued liabilities, and dividends payable — approximate fair value due to the short period to maturity.

14. Commitments and contingencies (in millions)

(a) The Corporation has entered into power purchase agreements expected to cost $5,744 (2005 - $4,739) until 2027 and provide approximately 469 MW of generating capacity.

(b) At 2006 prices, the Corporation also has forward commitments of $1,459 (2005 - $1,533) extending until 2024 for future minimum coal deliveries.

(c) The Corporation is forecasting to spend $438 on capital projects in 2007.

(d) Through the Energy Performance Contracting Program, the Corporation has guaranteed $10 (2005 - $11) of energy savings to various customers. The Energy Performance Contracting Program is a comprehensive facility improvement initiative designed to enhance the facilities of the customer while permanently reducing utility costs. These guarantees are offset by third party guarantees to SaskPower that ensure the energy savings are realized.

(e) At year-end, SaskPower — through its subsidiary, NorthPoint — has committed to 2007 electricity sales of $5 (2006 - $9) and 2007 electricity purchases of $3 (2006 - $12).

(f) The Corporation has issued letters of credit and promissory notes in the amount of $18 (2005 - $11). This includes $13 in letters of credit related to electricity trading activities and physical natural gas purchases and a $5 promissory note provided as acceptable credit support for project lenders in respect of the debt coverage service ratio requirements for the Cory Cogeneration Station.

(g) SaskPower has various legal matters pending, which in the opinion of management will not have a material effect on SaskPower's consolidated financial position or results of operations.

15. Net change in non-cash working capital (in millions)

	2006	2005
Accounts receivable and unbilled revenue	$ (25)	$ (12)
Inventory	–	(21)
Prepaid and deferred assets	7	3
Accounts payable and accrued liabilities	(6)	14
Accrued interest	1	3
	$ (23)	$ (13)

16. Joint ventures (in millions)

(a) The Corporation, through its subsidiary SaskPower International, holds a 50% interest in an unincorporated joint venture with ATCO Power Canada Ltd. The joint venture owns and operates a 228-MW natural gas-fired cogeneration plant (Cory Cogeneration Station) near Saskatoon, Saskatchewan.

(b) The Corporation holds a 50% interest in Cory Cogeneration Funding Corporation (CCFC). CCFC is a special purpose company established by the Corporation and ATCO Power Canada Ltd. (the Owners) to borrow long-term, non-recourse debt to finance the Cory Cogeneration Station. CCFC acts as agent for the Owners by receiving revenues, disbursing costs (including debt service) and distributing proceeds to the Owners.

(c) The Corporation's interest in joint ventures is summarized below:

	2006	2005
Statement of income		
Revenue	$ 18	$ 18
Operating, maintenance and administration	(5)	(5)
Depreciation	(5)	(5)
Interest	(7)	(7)
Income from joint ventures	$ 1	$ 1
Statement of financial position		
Current assets	$ 3	$ 3
Property, plant and equipment	121	124
Debt issue costs	2	2
Current liabilities	(4)	(3)
Non-recourse long-term debt	(87)	(90)
Other liabilities	(1)	(1)
Investment in joint ventures	$ 34	$ 35
Statement of cash flows		
Operating activities	$ 6	$ 6
Investing activities	(1)	(2)
Financing activities	(5)	(5)
Decrease in cash	$ –	$ (1)

Current assets include cash of $1 (2005 - $1) which is only available for use within the joint ventures.

17. Related party transactions (in millions)

Included in these financial statements are transactions with various Saskatchewan Crown corporations, departments, agencies, boards and commissions related to the Corporation by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan (collectively referred to as related parties).

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms. These transactions and amounts outstanding at year-end are as follows:

	2006	2005
Revenue	$ 101	$ 105
Expense	55	48
Royalties and water rentals	32	29
Finance charges	178	175
Taxes	18	17
Accounts receivable and unbilled revenue	3	10
Accounts payable and accrued liabilities	5	6
Accrued interest	55	54
Dividend payable	10	22

In addition, the Corporation pays Saskatchewan provincial sales tax on all its taxable purchases to the Saskatchewan Department of Finance. Taxes paid are recorded as part of the cost of those purchases.

18. Employees' future benefits (in millions)

Defined benefit pension plan

The Corporation sponsors a defined benefit pension plan (the Plan) that has been substantially closed to employees since 1977. The measurement date of the latest actuarial valuation used to determine the Plan assets and obligations was September 30, 2006. The effective date of the most recent actuarial valuation for funding purposes was December 31, 2005. Under current Canada Revenue Agency guidelines, an actuarial valuation for funding purposes is to be completed at a minimum, every 3 years. However, the Corporation has committed to request an actuarial valuation for funding purposes in 2007 with an effective date of December 31, 2006.

The defined benefit pension plan is solely the obligation of the Corporation. The Corporation is not obligated to fund the Plan but is obligated to pay benefits under the terms of the Plan as they come due.

(a) Status of the Plan

The actuarial valuation measured at September 30, 2006, showed that the Plan had an actuarial deficit of $46 (2005 - $6). The calculation of the pension plan deficit is as follows:

	2006	2005
Plan assets		
Fair value, beginning of year	$ 762	$ 681
Actual return on plan assets	63	112
Employee funding contributions	2	2
Employer funding contributions	5	7
Benefits paid	(42)	(40)
Fair value, end of year	790	762
Accrued benefit obligation		
Balance, beginning of year	768	716
Current service cost	8	8
Interest cost	40	42
Benefits paid	(42)	(40)
Actuarial loss	21	42
Past service costs	41	–
Balance, end of year	836	768
Plan deficit at September 30	$ (46)	$ (6)

For accounting purposes, an asset of $36 (2005 - $29) has been recorded in other assets on SaskPower's consolidated statement of financial position at December 31, 2006. The difference between the value reported as the Plan deficit and the value recorded on SaskPower's consolidated statement of financial position is due to the CICA requirement to base the valuation of the Plan for accounting purposes on long-term actuarial assumptions rather than on actual experience.

Below is a reconciliation of the Plan deficit and the value of the Plan recorded on SaskPower's consolidated statement of financial position:

	2006	2005
Plan deficit	**$ (46)**	$ (6)
Add: unamortized net actuarial loss not yet recorded	**46**	39
Add: unamortized past service costs	**41**	–
Less: unamortized transitional asset resulting from the introduction of Section 3461[1]	**(5)**	(9)
Add: SaskPower's contributions	**–**	5
Defined benefit pension asset recorded in other assets	**$ 36**	$ 29

1. Canadian Institute of Chartered Accountants Handbook Section 3461, *Employee Future Benefits.*

There are two significant reconciling items. The first relates to the unamortized net actuarial loss. This loss is made up of the accumulated difference between the actual returns and obligations of the Plan and the expected returns and obligations of the Plan based upon the long-term actuarial assumptions. The second item relates to the unamortized past service costs. These costs relate to legislation introduced by the Government of Saskatchewan in 2006 that would amend the Plan to provide regular benefit increases equal to 70% of the increase in the Saskatchewan CPI.

(b) Benefit expense

In 2006, using long-term assumptions as noted in (c), the Corporation recorded a non-cash pension credit of $7 (2005 - $2). This amount was recorded in the Corporation's operating, maintenance and administration expense. The following is a summary of the calculation of the pension credit:

	2006	2005
Cost arising from events during the year		
SaskPower's current service cost	**$ 6**	$ 6
Interest on accrued benefit obligation	**40**	42
Less: actual return on plan assets	**(63)**	(112)
Actuarial losses on accrued benefit obligation	**21**	42
Future benefit cost (credits) before adjustments	**4**	(22)
Adjustments to recognize the long-term nature of cost		
Difference between actual and expected return on plan assets	**15**	67
Amortization of transitional asset	**(5)**	(5)
Difference between amortization of net actuarial (gains)/losses and actual actuarial (gains)/losses on accrued benefit obligation	**(21)**	(42)
Pension credit recorded in operating, maintenance and administration	**$ (7)**	$ (2)

(c) Assumptions

The significant actuarial assumptions adopted in measuring the Corporation's accrued benefit obligation at September 30 are:

	2006	2005
Discount rate, beginning of year	**5.25%**	6.00%
Discount rate, end of year	**5.25%**	5.25%
Expected long-term rate of return on plan assets, beginning of year	**6.50%**	6.75%
Expected long-term rate of return on plan assets, end of year	**6.50%**	6.50%
Long-term rate of compensation increases	**3.50%**	3.50%
Remaining service life (years)	**3.89**	4.45
Long-term inflation rate	**2.50%**	2.50%
Assumptions for benefit increases (percentage of CPI)	**70.00%**	50.00%

The actuarial assumptions are based on management's expectations, independent actuarial advice and guidance provided by CICA. Two of the most significant assumptions are the discount rate and expected long-term rate of return on plan assets which have remained consistent with the prior year. The expected long-term rate of return on Plan assets is based upon the asset mix of the Plan and expected returns for each asset class.

(d) Benefit plan asset allocation

	2006	2005
Equity securities	**65.0%**	54.0%
Debt securities	**34.4%**	34.5%
Cash and short-term securities	**0.6%**	11.5%
	100.0%	100.0%

(e) Benefit payments

The benefit payments expected to be made to beneficiaries over the next five years are as follows:

	2007	2008	2009	2010	2011
Expected benefit payments	$ 47	$ 48	$ 50	$ 54	$ 58

Defined contribution pension plan

Under the defined contribution pension plan, the Corporation's obligations are limited to the contributions for current services. These contributions are charged to income when made. The net expense for the defined contribution pension plan is as follows:

	2006	2005
Defined contribution pension plan expense	**$ 9**	$ 8

Other benefit plans

Other benefit plans include a defined benefit and a defined contribution severance plan, a supplementary superannuation plan and a voluntary early retirement plan. A reconciliation between the opening and closing accrued benefit obligations balance is provided below:

	2006	2005
Accrued benefit obligations		
Balance, beginning of year	**$ 34**	$ 27
Expense	**11**	14
Benefits paid	**(7)**	(7)
Balance, end of year	**$ 38**	$ 34
Present value of accrued benefit obligations	**$ 55**	$ 51

The significant actuarial assumptions adopted in measuring the Corporation's accrued benefit obligations at September 30 are:

	2006	2005
Discount rate	**4.50% - 5.25%**	4.25% - 5.25%
Long-term rate of compensation increases	**3.50%**	3.50%
Remaining service life (years)	**10.36**	11.15

19. Comparative figures

Certain amounts for the prior year have been reclassified to conform with current year financial statement presentation.

Five-year financial summary

(in millions)

	2006	2005	2004	2003	2002
Consolidated statement of income					
Revenue					
Saskatchewan	**$ 1,269**	$ 1,181	$ 1,132	$ 1,104	$ 1,058
Export	**29**	68	66	92	34
Electricity trading	**118**	46	31	21	9
Other	**40**	31	28	27	23
Total revenue	**1,456**	1,326	1,257	1,244	1,124
Expense					
Fuel and purchased power	**498**	454	473	485	359
Electricity trading costs	**103**	37	27	17	7
Operating, maintenance and administration	**360**	336	317	301	286
Depreciation	**207**	189	189	186	167
Finance charges[1]	**161**	147	157	39	141
Taxes	**34**	32	28	29	27
Total expense	**1,363**	1,195	1,191	1,057	987
Net income	**$ 93**	$ 131	$ 66	$ 187	$ 137

1. Finance charges are net of foreign exchange gains or losses.

Consolidated statement of financial position					
Assets					
Current assets	**$ 354**	$ 365	$ 371	$ 277	$ 348
Property, plant and equipment	**3,695**	3,616	3,344	3,260	3,190
Other assets	**114**	120	115	73	91
Total assets	**$ 4,163**	$ 4,101	$ 3,830	$ 3,610	$ 3,629
Liabilities and equity					
Current liabilities	**$ 335**	$ 315	$ 310	$ 401	$ 398
Long-term debt	**2,225**	2,224	1,948	1,696	1,718
Other liabilities	**135**	126	182	130	148
Equity	**1,468**	1,436	1,390	1,383	1,365
Total liabilities and equity	**$ 4,163**	$ 4,101	$ 3,830	$ 3,610	$ 3,629
Consolidated statement of cash flows					
Cash provided by operating activities	**$ 255**	$ 297	$ 289	$ 200	$ 262
Cash used in investing activities	**(258)**	(457)	(289)	(255)	(290)
Cash (used in) provided by financing activities	**(42)**	121	100	(34)	(82)
(Decrease) increase in cash position	**$ (45)**	$ (39)	$ 100	$ (89)	$ (110)
Financial Indicators					
Dividends	**$ 61**	$ 85	$ 59	$ 169	$ 82
Capital expenditures	**285**	473	301	267	305
Return on equity	**6.4%**	9.2%	4.8%	13.6%	10.2%
Per cent debt ratio	**61.0%**	60.9%	58.2%	56.5%	56.8%

Five-year operating summary

	2006	2005	2004	2003	2002
Number of Saskatchewan electric customers					
Residential	**315,203**	311,736	308,659	305,685	303,317
Farm	**64,273**	65,110	66,099	66,868	67,317
Commercial	**53,574**	53,008	52,911	52,656	52,500
Oilfield	**12,437**	11,757	11,409	11,180	11,026
Power	**80**	79	85	87	72
Reseller	**2**	2	2	2	2
	445,569	441,692	439,165	436,478	434,234
Total electric sales (GWh)					
Residential	**2,531**	2,514	2,484	2,509	2,457
Farm	**1,272**	1,337	1,350	1,442	1,367
Commercial	**3,239**	3,200	3,132	3,151	3,461
Oilfield	**2,399**	2,264	2,165	2,082	1,728
Power	**6,666**	6,552	6,502	6,278	5,722
Reseller	**1,293**	1,266	1,261	1,287	1,263
Saskatchewan electric sales	**17,400**	17,133	16,894	16,749	15,998
Exports	**480**	1,048	1,002	1,436	611
Total electric sales	**17,880**	18,181	17,896	18,185	16,609
Net electrical energy supplied (GWh)					
Coal	**11,211**	11,570	12,302	11,730	11,670
Gas	**980**	734	876	1,066	989
Hydro	**4,032**	4,573	2,746	3,416	2,836
Wind	**535**	56	35	20	4
Imports and other	**451**	481	960	795	1,251
Purchased power	**2,614**	2,536	2,892	2,952	1,769
Gross electrical energy supplied	**19,823**	19,950	19,811	19,979	18,519
Losses and internal use	**(1,943)**	(1,769)	(1,915)	(1,794)	(1,910)
Net electrical energy supplied	**17,880**	18,181	17,896	18,185	16,609
Electricity trading (GWh)					
Electricity trading purchases	**1,672**	645	571	347	180
Losses	**(23)**	(23)	(35)	(22)	(14)
Electricity trading sales	**1,649**	622	536	325	166
Generating capacity (net MW)					
Coal	**1,661**	1,651	1,651	1,651	1,651
Gas	**538**	538	538	538	538
Hydro	**854**	854	854	854	854
Wind	**161**	11	11	11	6
Purchased power	**454**	449	449	449	221
	3,668	3,503	3,503	3,503	3,270
Peak loads (net MW)					
Annual peak load	**2,960**	2,946	2,954	2,805	2,800
Minimum load	**1,510**	1,482	1,466	1,501	1,413
Summer peak load	**2,706**	2,639	2,591	2,666	2,569
Lines in service (km)					
Transmission lines	**12,212**	12,159	12,149	12,104	12,026
Distribution lines	**142,843**	142,110	141,408	140,733	140,084
	155,055	154,269	153,557	152,837	152,110
Number of permanent full-time employees	**2,458**	2,425	2,397	2,376	2,350
Average annual usage per residential customer (kWh)	**8,030**	8,065	8,048	8,208	8,100

CORPORATE GOVERNANCE

A) Authority

SaskPower is governed by *The Power Corporation Act*. It is subject to the provisions of *The Crown Corporations Act,1993*, which gives the Crown Investments Corporation (CIC) of Saskatchewan, the holding company for Saskatchewan's commercial Crown corporations, broad authority to set the direction of the Corporation. Where required by legislation or policy directive, SaskPower submits performance management and investment decisions for review and approval by CIC and the provincial cabinet. Through its Chair, who is an outside Director, the SaskPower Board of Directors is accountable to the Minister Responsible for SaskPower. The Minister functions as a link between the Corporation and cabinet, as well as the provincial legislature.

B) Role of Board of Directors (10 meetings)

SaskPower's Board of Directors is responsible for the general stewardship of SaskPower. It is accountable for setting direction, monitoring and evaluating achievement, as well as identifying any necessary corrective action for the Corporation. The Board works with management to develop and approve SaskPower's strategic plan, annual budget and business plans. It participates in identifying business risk and oversees the implementation of appropriate systems to achieve a balance between risks incurred and potential returns. During 2006, highlights include the review of numerous operational, financial, environmental, strategic planning, human resource and governance items. The number of meetings attended by each Director during the year:

Director	Meetings attended[1]	
Patricia A.G. Quaroni, Chair	10	(10)
Cheryl Bauer Hyde	9	(10)
Edmund Bellegarde[2]	2	(2)
Larry Braun	4	(10)
Neil Collins	9	(10)
Sarah Gauthier	10	(10)
Lyn Kristoff	10	(10)
Al Macatavish, Vice-chair	10	(10)
Dr. Michael D. Mehta	8	(10)
Deb Schmidt	10	(10)
Mel Watson	10	(10)

1. Figures in brackets represent the number of meetings held by the Board during the period the individual was a Director.

2. Edmund Bellegarde's appointment expired March 31, 2006.

C) Board composition

SaskPower's Board of Directors is appointed by the Lieutenant-Governor-in-Council pursuant to *The Power Corporation Act*. The Board consists of nine outside Directors and two Directors appointed as representatives of the Communications, Energy and Paperworkers (CEP) Local 649 and International Brotherhood of Electrical Workers (IBEW) Local 2067 who are not related to the management of the Corporation.

D) Committees

The Board has four standing committees to assist in discharging specific areas of Board responsibility:

- Audit and Finance Committee
- Governance Committee
- Environment, Occupational Health and Safety Committee
- Human Resources/Compensation Committee

The full Terms of Reference of each of the committees, as well as the Board of Directors, can be found on the SaskPower website (saskpower.com).

Audit and Finance Committee (nine meetings) **- Chair: Lyn Kristoff**
The Audit and Finance Committee's Terms of Reference mandate the Committee to assist the Board in meeting its responsibilities with respect to financial reporting, internal controls and accountability. The Committee oversees the risk management reporting of the Corporation and directly interacts with the internal and external auditors. The Committee ensures that the Board is provided with financial plans, proposals and information that are consistent with the Corporation's overall strategic plan and public policy objectives.

During 2006, the Committee reviewed annual and interim financial statements, regular risk reporting packages, corporate balanced scorecard reporting, SaskPower's insurance program, the 2007 business plan, the Corporation's 2007 Rate Application, as well as the Deloitte & Touche and Provincial Auditor 2005 summaries. The Committee also monitored an Internal Audit investigation into financial irregularities involving an employee which came to light mid-year. In this particular case, the losses were fully recovered by insurance, however the incident underscores the need for continued vigilance. Earlier in 2006, the Committee reviewed recommended changes in the SaskPower Code of Conduct which provide for anonymous reporting of irregularities (whistle blowing) mechanisms. Finally, the Committee worked with management in overseeing the feasibility work for a clean coal generating station.

Environment, Occupational Health and Safety Committee (four meetings) **- Chair: Al Macatavish**
The Environment, Occupational Health and Safety Committee is charged with ensuring that the Corporation proactively addresses safety, health and environmental issues and is in compliance with regulatory and statutory requirements. During the year, highlights include affirming SaskPower's Environmental Policy, reviewing compliance with mining reclamation plans, monitoring the safety and sustainability of dam spillways, as well as tracking changes to federal environmental legislation. The Committee also assessed progress on the implementation of SaskPower's Safety Management System and reviewed incident reporting.

Governance Committee (four meetings) **- Chair: Deb Schmidt**
The Governance Committee is responsible for the development, review and effectiveness of SaskPower's corporate governance practices. It also serves as ethics advisor for the Board. Its duties include monitoring and evaluating Board and individual Director performance, as well as the effectiveness of the Board committee structure. It is also responsible for conducting Board skills and needs assessments within the process of identifying potential future members. In 2006, its activities included recommending updates to the SaskPower Governance Manual and Execution of Documents Resolution to better align with Canadian Securities Administrators (CSA) Guidelines and provide for clearer direction on role documentation. Meanwhile, it reviewed position descriptions for the Board Chair, Committee Chairs and CIC Corporate Secretary while updating the Board Handbook. It also evaluated candidates for appointment to the Board, made recommendations for member term extensions and reviewed supplementary procedures for addressing potential conflict of interest issues involving inside Directors (representatives of labour). In addition, the Committee examined the results of peer evaluations and discussed future approaches to evaluation.

Human Resources/Compensation Committee (six meetings) **- Chair: Mel Watson**
The Human Resources/Compensation Committee is charged with overseeing SaskPower's human resource strategies, programs and practices. Initiatives during the year focused on the strategic thrust of attracting and retaining a diverse and engaged workforce, given the large number of expected retirements facing the Corporation. The Committee monitored progress on planning and recognition initiatives, diversity programs, employee engagement and leadership succession planning. It also finalized longstanding plans to update compensation levels. A job evaluation program for IBEW members was finalized and recommended for approval, as was a management job evaluation and compensation system.

E) Governance practices

In recent years, SaskPower has made substantial strides in enhancing corporate governance. Prior to 2005, practices were benchmarked to standards set by the Toronto Stock Exchange (TSX) for publicly traded companies. However, the TSX standards were replaced by updated disclosure guidelines set by the CSA. In light of these new guidelines, the SaskPower Board directed a review of existing practices to align with the new standards and refine any practices as required.

To assist in this effort, the Board retained the services of noted Canadian governance expert Patrick O'Callaghan. Mr. O'Callaghan's review resulted in a number of recommendations dealt with by the Corporation beginning in 2005, with the balance addressed in 2006. SaskPower recognizes that good corporate governance is a subject for continuous improvement. As a result, it is committed to revisiting key elements of its decision-making processes on an annual basis to ensure they continue to meet best practice standards.

As a Crown corporation, SaskPower is not required to comply with CSA Governance Guidelines. That notwithstanding, the Corporation uses these guidelines to benchmark its governance practices. In fact, the Corporation's practices are substantially consistent with CSA standards. A detailed discussion of SaskPower governance practices in relation to the CSA Guidelines scorecard may be viewed on the SaskPower website (saskpower.com).

Board of Directors, left to right:

Neil Collins, Cheryl Bauer Hyde, Mel Watson, Deb Schmidt, Larry Braun, Patricia Quaroni, Dr. Michael Mehta, Marni Dormuth, Al Macatavish, Sarah Gauthier and Lyn Kristoff.

BOARD OF DIRECTORS

As at December 31, 2006

Patricia A.G. Quaroni, LLB
Chair of the Board
Lawyer and Partner
Olive Waller Zinkhan & Waller LLP
Regina, Saskatchewan

Cheryl Bauer Hyde, FCUIC, CFP
Certified Financial Planner
Regina, Saskatchewan
Committees: Audit and Finance; Governance

Larry Braun
President
CEP Local 649
Saskatoon, Saskatchewan
Committees: Environment, Occupational Health & Safety

Neil Collins
President
IBEW Local 2067
Estevan, Saskatchewan
Committees: Governance; SaskPower Shand Greenhouse Board Representative

Marni Dormuth
Corporate Secretary
Crown Investments Corporation of Saskatchewan
Regina, Saskatchewan

Sarah Gauthier, B.Sc., B.E.
Engineer-In-Training
Golder Associates Ltd.
Saskatoon, Saskatchewan
Committees: Environment, Occupational Health & Safety; Human Resources/Compensation

Lyn Kristoff, FCA
Retired Vice-president of Finance and Corporate Controller
Saskatchewan Wheat Pool
Regina, Saskatchewan
Committees: Audit and Finance (Chair); Governance

Al Macatavish
Vice-chair of the Board
Retired Vice-president
Manitoba Hydro
Winnipeg, Manitoba
Committees: Audit and Finance; Environment, Occupational Health & Safety (Chair)

Michael D. Mehta, BA, M.E.S., PhD
Professor of Sociology
University of Saskatchewan
Saskatoon, Saskatchewan
Committees: Environment, Occupational Health & Safety

Deb Schmidt
Independent Business Person
Yorkton, Saskatchewan
Committees: Governance (Chair); Human Resources/Compensation

Mel Watson
President
Watson Tractor
Regina, Saskatchewan
Committees: Audit and Finance; Human Resources/Compensation (Chair)

EXECUTIVE TEAM

As at December 31, 2006

Pat Youzwa
President and Chief Executive Officer
SaskPower

Zoltan Bodas
Acting Vice-president
Transmission and Distribution

David Hughes
President and Chief Executive Officer
SaskPower International

Bill Jones
Vice-president and Chief Financial Officer
Corporate and Financial Services

Judith A. May
Vice-president
Customer Services

Garner Mitchell
Vice-president
Power Production

Gordon A. Nystuen
Group Vice-president
People and Processes

Rick Patrick
Vice-president
Planning, Environment & Regulatory Affairs

Gary Wilkinson
President and Chief Executive Officer
NorthPoint Energy Solutions

GLOSSARY

Biogas
Methane created from the decomposition of organic matter such as manure or landfill waste; can be used to power engines to generate heat and electricity.

Biomass
Energy resources derived from organic matter. These include wood, agricultural waste and other living-cell material that can be burned to produce heat energy.

Capacity
The greatest load that can be supplied by a generating unit, power station or an entire provincial grid system.

Carbon dioxide (CO_2)
One of the greenhouse gases believed to be a cause of climate change. Carbon dioxide is produced in fossil fuel-based electricity generation.

Clean coal technology
Technology that nearly eliminates emissions — including carbon dioxide — from coal-fired power plants.

Climate change
Climate change refers to any change in climate over time, whether due to natural variability or as a result of human activity.

Cogeneration
The simultaneous generation of electricity and useful heat or steam. The heat could be put to use in an industrial process or to heat a facility or community. The electricity could be used by the owner or sold to SaskPower.

Demand
The rate at which electric energy is delivered at a given instant or averaged over a period of time. It is measured in kilowatts, megawatts, etc.

Distributed generation (DG)
The process of producing electrical power on a small scale at a consumer's site.

Distribution
Process of moving electric energy at lower voltages from major substations to customers.

Environmental Management System (EMS)
Part of an overall management system which includes organizational structure, planning activities, responsibilities, practices, procedures, processes, and resources for developing, implementing, achieving, reviewing and maintaining an environmental policy.

Environmentally Preferred Power (EPP) Program
A SaskPower initiative designed to assist in meeting new load growth requirements until 2010 from environmentally friendly sources. Independent Power Producers may sell SaskPower electricity generated through eligible technologies, including wind, low-impact hydro, biomass, solar, flare gas, and heat recovery from existing sources.

Gigawatt (GW)
A unit of bulk power; one billion watts or one million kilowatts.

Gigawatt hour (GWh)
A unit of bulk energy; 1,000,000 kilowatt hours.

Greenhouse gases (GHG)
Naturally occurring gases such as carbon dioxide, methane and nitrous oxide that trap heat in the earth's lower atmosphere.

Green Power Portfolio (GPP)
A SaskPower strategy to meet new electricity supply requirements for the period 2003 to 2010 using environmentally friendly sources, whose operations do not add to greenhouse gas emissions. The strategy includes the development of additional wind power generation, environmentally preferred power projects and conservation initiatives.

ISO 14001
A standard that defines the elements of a sound environmental management system. The ISO 14000 series is a family of environmental management standards developed by the International Organization for Standardization (ISO).

Kilowatt hour (kWh)
A unit of bulk energy; 1,000 watt hours. The measurement is generally used for billing residential customers.

Kyoto Protocol
An international agreement to reduce greenhouse gas emissions, ratified by the federal government in 2002.

Load
The amount of electric power or energy consumed by a particular customer or group of customers.

Megawatt (MW)
A unit of bulk power; 1,000 kilowatts. The unit generally used to describe the output of a commercial generator.

Megawatt hour (MWh)
A unit of bulk energy; 1,000 kilowatt hours.

NERC
Formed in 1968, the North American Electric Reliability Council's mission is to ensure that the bulk electric system in North America is reliable, adequate and secure.

OHSAS 18001
A standard that defines the elements of a sound occupational health and safety management system.

Peak load demand or peak energy demand
The maximum amount of electric power or energy consumed by a particular customer or group of customers at a precise time.

Polygeneration
The gasification of coal — or other feedstock such as petroleum residue — to produce electricity and other byproducts.

Safety Management System (SMS)
The structure, resources, practices and processes used to implement health and safety policies and minimize risks.

Sulphur dioxide (SO_2)
Sulphur dioxide belongs to the family of sulphur oxide (SOx) gases. These gases are formed when fuel containing sulphur (mainly coal and oil) is burned at power plants and during industrial processes.

Switching station
A facility containing transformers, regulators, switches and protective equipment for changing transmission voltages between transmission lines.

Transmission
Process of moving electric power in bulk at higher voltages from the source of supply to distribution centres.

Volt (V)
The unit of measurement of electrical pressure or force which causes electric current to flow.

Watt (W)
The unit of measurement of electrical power.

SYSTEM MAP

As at December 31

Generation (net capacity)

Hydroelectric

1. **Athabasca Hydroelectric System** - 23 MW
   - Wellington (5 MW)
   - Waterloo (8 MW)
   - Charlot River (10 MW)
2. **Island Falls Hydroelectric Station** - 102 MW
4. **E. B. Campbell Hydroelectric Station** - 288 MW
5. **Nipawin Hydroelectric Station** - 255 MW
10. **Coteau Creek Hydroelectric Station** - 186 MW

Natural Gas

3. **Meadow Lake Power Station** - 44 MW
7. **Landis Power Station** - 79 MW
8. **Queen Elizabeth Power Station** - 385 MW
11. **Success Power Station** - 30 MW

Wind

12. **Centennial Wind Power Facility** - 150 MW
14. **Cypress Wind Power Facility** - 11 MW

Coal

15. **Poplar River Power Station** - 572 MW
16. **Boundary Dam Power Station** - 813 MW
17. **Shand Power Station** - 276 MW

Independent Power Producer

6. **Meridian Cogeneration Station** - 210 MW
9. **Cory Cogeneration Station** - 228 MW
13. **SunBridge Wind Power Project** - 11 MW
18. **NRGreen Kerrobert Heat Recovery Project** - 5 MW

Transmission

- **230 kV**
- **138 kV**
- **138 kV line operating at 72 kV**
- **Switching Station**
- **Interconnection**

To provide feedback or request additional copies of this annual report, please visit our website or contact SaskPower Communications and Public Affairs by phone (306-566-3170) or fax (306-566-2548).

SaskPower

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